

# CURRENT *History*

A MONTHLY MAGAZINE  
OF WORLD AFFAIRS

JULY 1965

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OR READING TODAY...FOR REFERENCE TOMORROW

# CURRENT *History*

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## Coming Next Month

### LABOR MANAGEMENT IN THE GREAT SOCIETY

Our August, 1965, issue—the third in the three-issue set which *Current History* is devoting to a study-in-depth of labor-management—evaluates the complementary and conflicting roles of labor, large and small business, and government. Six articles will cover the most vital aspects of labor relations in the United States today:

### Labor-Management, 1965

by JAMES WASON, Legislative Reference Service, Library of Congress;

### The Challenge of Automation

by G. RANDOLPH COMSTOCK, National Commission on Technology, Automation and Economic Progress, U.S. Department of Labor;

### Multiemployer Bargaining

by CHARLES M. REHMUS, Co-Director, Institute of Labor and Industrial Relations, University of Michigan-Wayne State University;

### State "Right-to-Work" Laws

by MILTON J. NADWORN, Professor of Commerce and Economics, University of Vermont;

### The National Labor Relations Board

by PHILIP ROSS, Associate Professor of Economics, University of Pittsburgh;

### Compulsory Arbitration

by PAUL L. KLEINSORGE, Professor of Economics, University of Oregon.

Earlier issues in this series . . .

LABOR-MANAGEMENT: THE STORY OF THE FEDERAL ROLE, June, 1965

LABOR-MANAGEMENT: ITS CONTINUING ROLE, July, 1965

HIGH SCHOOL DEBATERS: Note these three 1965-1966 N.U.E.A. debate topic issues.

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# CURRENT History

JULY, 1965

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*In this second issue on labor, management and the role of the federal government, six articles explore the continuing role of various economic forces in the thriving United States economy. The introductory article evaluates the factors that contribute to our overriding prosperity, the lingering problem of poverty, and the roles of labor and management. As this economist points out: "Two social forces in American society—labor and management—have an unequalled opportunity to contribute more fully to the well-being of the nation."*

## The United States Economy: An Overview

By B. J. WIDICK

*Adjunct Associate Professor, Graduate School of Business, Columbia University and  
Research Associate, Institute of Labor and Industrial Relations,  
University of Michigan—Wayne State University*

THE EXPANSION of the American economy into a giant unparalleled in the history of the world makes a balanced appraisal difficult; it requires an overview so all-encompassing as to stagger the imagination. The United States is a nation of growth with many ramifications; a nation of affluence; and, paradoxically, a country which still has gross inequalities to which even its most ardent enthusiasts object.

In the spring of 1965, for example, our economy had enjoyed four uninterrupted years of prosperity, a period of growth largely unexpected by most economists, here and abroad. The nation's gross national product (GNP)—the yardstick by which we measure the value of all the goods and services it produces in one year—was \$365 billion in 1953. Ten years later it had reached \$585 billion and, in 1964, it reached \$649 billion. The changing character of our lives, due to this enormous material success, is reflected in the fact that there are over 80 million motor vehicles on American highways and our car

producers are beginning to talk about producing 10 million cars annually. Our basic steel industry now has a capacity of over 150 million tons of steel annually, a figure that seemed unrealizable a decade ago.

Our population reached 192 million in 1964, partly, of course, due to the postwar baby boom and the increased longevity of American lives. Our total civilian work force numbers over 74 million with about 70 million working. What is astonishing about this performance is that less than 25 years ago Vice President Henry Wallace was almost ridiculed out of public life for suggesting that the United States would sooner or later have 60 million jobs. Needless to say, this expansion in available work has not solved the problem of chronic unemployment.

How was the United States able to achieve the material prosperity which so many others in the world desired but could not obtain? Perhaps most important is the nation's rising productivity, that is, its ability to produce an increasing amount of goods and services per

unit of manpower. One hundred years ago the average factory worker put in over 60 hours a week. Today, he averages around 40 hours, but his output is six times more than that of a century ago. Undoubtedly, the nation's general climate, its great natural resources, its fertile land contributed to the general possibility of success. However, America's economic achievements are largely the result of her unparalleled ability to use the fruits of technology, that is, machines, power, industrial techniques, new materials, scientific and industrial research.

The result to date of the growth of this affluent society was described succinctly in the March, 1965, issue of *Fortune Magazine* by Edmund K. Faltermayer, who wrote:

Our American civilization is only halfbuilt; from the standpoint of per capita consumption goods, home ownership, education and social ability, the U.S. leads the world and the American Dream is now largely fulfilled. But that dream, which spurred on frontiersmen clearing the wilderness and inspired immigrants to break out of the slums, was never really a blueprint for a mature society. It emphasized the individual's demands for material comfort, privacy, and the education needed to obtain them. But it largely ignored the other half of civilized life: a whole spectrum of human needs that can be met only through communal action.

The society we have built fulfills the lopsided American Dream with a vengeance. Our immaculate homes are crowded with gleaming appliances and our refrigerators are piled high with convenience foods. But beyond our doorsteps lies a shamefully neglected social and physical environment. Foreigners who come to these shores expecting to find splendid countryside and magnificent cities discover other things instead: noise, vandalism, polluted air, befouled streams, filthy streets, forests of ugly telegraph poles and wires, decrepit mass-transit systems, and parks that are unkempt and unsafe. They also see: a countryside being devoured by housing subdivisions and by shopping centers whose graceless buildings are little more than merchandise barns; highways splattered with enormous billboards and hideous drive-ins that shriek for the passing motorist's attention; central cities that, except for a rather insignificant amount of reconstruction at the core, are sprawling wastelands of decayed speculative construction left

over from yesteryear. The only places where Americans have extensively beautified their country, visitors soon discover, are certain upper-middle-class suburbs—fine for those who can afford them—and some college campuses. Otherwise, there is little relief from what the English magazine *Architectural Review* a decade ago called "the mess that is man-made America."<sup>1</sup>

These observations furnish a proper balance for evaluating the phenomenal performance and limitations of the American economy.

## REVOLUTION IN AGRICULTURE

The transformation of our economy, especially in the twentieth century, from an agricultural to an industrial complex is perhaps a major source of the dislocations and unmet problems that persist. As a consequence of the enormous productivity gains in our agricultural sector, with the decreasing need for manpower, in 1964 only one out of every fourteen Americans lived on a farm while, in 1920, almost one out of every three lived on a farm. This is one of the reasons why 70 per cent of our population now lives in urban centers.

The revolution in agriculture has had other astonishing effects; for example, the United States is a prime source of food for other countries of the world. One-quarter of all United States exports consist of food. The value of these food exports in 1962 was \$5 billion, an increase of \$1.7 billion over average annual exports in the early 1950's. Meanwhile, in a comparable period, the number of workers on American farms declined from 7.5 million to 5.2 million, while the number of acres cultivated per worker rose from about 45 to over 55. Productivity of farmers has been moving upward for over 20 years. The amount of production for each man hour of labor almost doubled between 1940 and 1950 and it almost doubled again in the next 12 years. Another way of pointing up the productivity in our agricultural economy is to note that in 1900 one farm worker fed the equivalent of seven persons while in 1962 one worker produced food for over 28 people. Technology and the economics of scale, which many persons think apply only to industry, are important factors

<sup>1</sup> Edmund K. Faltermayer, "The Half-Finished Society," *Fortune Magazine*, Vol. LXXI, No. 3, March, 1965, p. 96.



in the fantastic productivity of our agricultural economy.

The twilight of the small farmer as of the small business man seems to be here. The total value of farm products originating on farms with annual sales of \$10 thousand or more came to \$21.9 billion. This was three-fourths of the value of all the farm products sold in the country in 1959. But all the farms on which these crops were grown made up only two-fifths of all of the nation's farms; they averaged about 800 acres each and comprised two-thirds of the nation's farm land. The time when America visualized itself as the nation of farmers is now long past.<sup>2</sup>

In view of the expanding population, which is expected to reach 235 million by 1975, one recalls almost with amusement that in the late 1930's our most prominent economists were worried about the rate of population growth slowing down. (This was such an alarming picture that a Senate Committee invited Dr. Alvin Hansen, perhaps the most noted American economist at that time, to Washington to testify on this question.)<sup>3</sup> Conservative estimates are that the number of workers in the civilian labor force will reach 86 million because of the population explosion. This is up 12.9 million from 1960, or a 50 per cent greater increase than the one that occurred in the 1950's, and young workers under 25 will account for half of the increase in the labor force in this decade.

In the context of the changing character of our industry, with construction and services rising while manufacturing remains relatively stable, one of our national needs will be five million additional skilled workers by 1970. Parenthetically, only 15 per cent of this need will be produced by industry labor apprenticeships at the present rate of 32 thousand completions per year. The changes in our work force have another characteristic

which is worth noting; by 1964, women comprised 35 per cent of all workers.<sup>4</sup>

## THE OTHER AMERICA

The dynamic portrait of our nation with its expanding economy and its rising population is tarnished, however, by deep social scars. In recent years, Reverend Martin Luther King has made this nation conscious of the plight of most of the 20 million Negroes in the United States. In the year 1964, for example, 812 thousand or 9.8 per cent of the Negro civilian labor force was unemployed, double the rate for white unemployment. This is just one aspect of the disadvantages faced by part of the population. Michael Harrington, the perceptive critic and author of the book, *The Other America*, which sparked the current "War on Poverty," reminded the nation that affluence has never reached even a significant minority. Harrington pointed out that:

The poor in America constitute about 25 per cent of the total population. They number somewhere between 40,000,000 and 50,000,000, depending on the criterion of low income that is adopted.

The majority of the poor in America are white, although the nonwhite minorities suffer from the most intense and concentrated impoverishment of any single group.

A declining number and percentage of the poor are involved in farm work, and although rural poverty is one of the most important components of the culture of poverty, it does not form its mass base.

In addition to the nonwhite minorities, the groups at a particular disadvantage are: the aged, the migrant workers, the industrial rejects, children, families with a female head, people of low education. These various characteristics of the culture of poverty tend to cluster together. (The large families have had the least gain of all family groups in recent years, and hence more children among the poor.)

The people who are in this plight are at an enormous physical disadvantage, suffering more from chronic diseases and having less possibility of treatment.

The citizens of the culture of poverty also suffer from more mental and emotional problems than any group in American society.

These figures do not confirm any of the complacent theories that poverty is now in 'pockets,' that is nonwhite and rural, and so on. Rather,

<sup>2</sup> Arnold B. Barach, *U.S.A. and its Economic Future* (New York: Macmillan, 1964), p. 117.

<sup>3</sup> Robert L. Heilbroner, *The Worldly Philosophers* (New York: Simon & Schuster, 1961), pp. 263-264.

<sup>4</sup> "Summary of Current Economic Facts and Labor Force Data," U.S. Department of Labor, March, 1965.

**TABLE 1. Gross Average Hourly Earnings of Production Workers in Manufacturing and of Nonsupervisory Workers in Selected Nonmanufacturing Industries in The United States, 1947-1963**

Year	Total manufac- turing	Construction: Special trades contractors	General merchandise stores	Hotels, tourist courts, motels
1947 .....	\$1.22	\$1.65	\$ .83	(a)
1948 .....	1.33	1.81	.88	(a)
1949 .....	1.38	1.89	.92	(a)
1950 .....	1.44	1.97	.95	(a)
1951 .....	1.56	2.15	1.01	(a)
1952 .....	1.65	2.27	1.04	(a)
1953 .....	1.74	2.41	1.08	(a)
1954 .....	1.78	2.51	1.12	(a)
1955 .....	1.86	2.58	1.15	(a)
1956 .....	1.95	2.72	1.20	(a)
1957 .....	2.05	2.88	1.26	(a)
1958 .....	2.11	3.00	1.31	\$1.03
1959 .....	2.19	3.13	1.36	1.06
1960 .....	2.26	3.29	1.41	1.09
1961 .....	2.32	3.41	1.46	1.14
1962 .....	2.39	3.54	1.52	1.18
1963 .....	2.46	3.66	1.56	1.22
Average yearly increase (cents) (b) .....	7.8	12.6	4.6	3.8

a. Not available.

b. Average of increase from 1947 to 1963 based on data as shown above.

Source: U.S. Bureau of Labor Statistics, *Employment and Earnings Statistics for The United States, 1909-1962*, Bulletin No. 1312-1, 1963, pp. 30-31, 34, 35, 527, 528, 548. U.S. Bureau of Labor Statistics, *Employment and Earnings*, March, 1964, pp. 36, 46.

they indicate a massive problem, and one that is serious precisely because it concerns people who are immunized from progress and who view technological advance upside-down.<sup>5</sup>

In contrast to the citizens of Harrington's *Other America*, two major social institutions in our society have made remarkable gains; they are the corporations and the unions. In its annual survey of corporation profits, *Business Week* on January 9, 1965, stated:

Most forecasters now estimate that pretax profits will go from the approximately \$57.5-billion of 1964 to \$59-billion to \$61-billion this year, with the real push in the first half. After-

tax profits, reflecting the second installment of the cut in corporate taxes, should advance by at least 6% this year to around \$34-billion, against the 1964 gain of nearly 20%.<sup>6</sup>

*Business Week* also points out, "Corporate dividend payments, which jumped by 11% to just over \$20-billion in 1964, should move up by about 10% to \$22-billion this year."

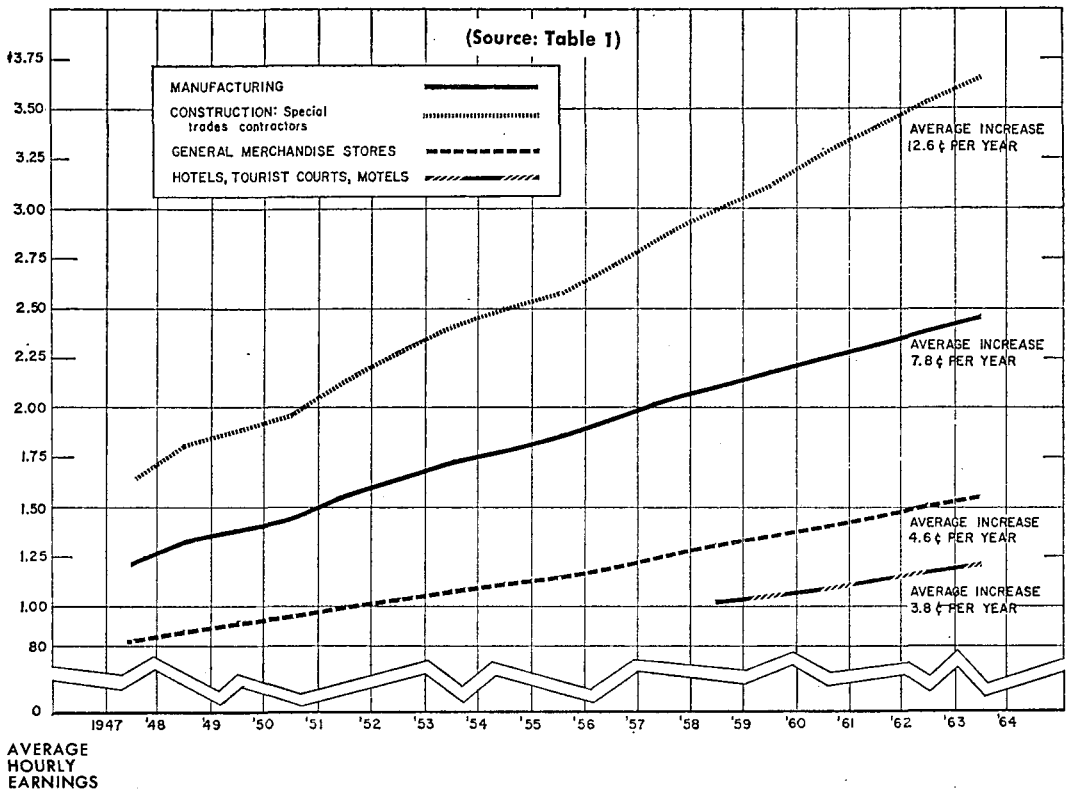
Perhaps the most pertinent point made in *Business Week's* survey relates to the absence of evidence of a squeeze on profits. The survey states:

Even more important, as the year gets under way, is the absence of evidence of a squeeze on profits. Profit margins fattened by about one-half of 1% last year, on a comparison with the like quarters of 1963 (5.1% in third-quarter 1964 against 4.6% in third-quarter 1963.). Net

<sup>5</sup> Michael Harrington, *The Other America* (New York: Macmillan Company, 1963), pp. 185-186.

<sup>6</sup> "The Climb Continues, Less Fast," *Business Week Magazine*, No. 1845, January 9, 1965, p. 104.

CHART 1. GROSS AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS IN MANUFACTURING  
AND OF NONSUPERVISORY WORKERS IN SELECTED  
NONMANUFACTURING INDUSTRIES—UNITED STATES, 1947–1963



profits as a return on stockholder equity improved even more last year (11.2% in last year's third quarter against 10% in the third quarter of 1963).

In each case, the levels are the highest in nearly a decade.

**HELPFUL FACTORS.** An indication of how well manufacturers have kept costs in line can be found in the Census Bureau's figures on unit labor costs. Last January, the cost of labor per unit of output was 97.9 (1957–59 = 100). Preliminary estimates put the November, 1964, level at just 98.2.<sup>7</sup>

This check on costs has been coupled with a general firming of prices. In January, 1963, Census Bureau's ratio of price to unit labor costs in manufacturing was 100.6. (1957–59 = 100). By last January, it had advanced to 103.2. Last November, it stood at 103.3. In some industries—most notably nonferrous metals—prices have risen sharply over the past 12 months.<sup>7</sup>

Labor too has gained somewhat in the wave of expansion and prosperity which has marked the economic growth of this nation.

If there is any "iron law of wages" to be found in the functioning of the American economic system in the post World War II period, it appears to be the tendency for hourly wages—however measured—to increase from year to year in all sectors of the economy and in all areas of the nation. Irrespective of the cause—that is, whether it is because of labor union pressures, increasing productivity, a rising price trend, an expanding economy, or any combination of these along with other factors—the available evidence indicates a steady, inexorable rise in hourly earnings. A special study by Dr. Allan Easton of Columbia University and the writer showed that since 1947 the selected building trades industries had an annual average wage increase of \$.126 per hour, manufacturing industries slightly over \$.078 an hour, while the retail services trades rose about \$.038 an hour. (See Chart 1, Table 1.)

Significantly, if the wage rate trends are

<sup>7</sup> *Ibid*, p. 106.

**TABLE 2. Gross Average Hourly Earnings of Production Workers in Manufacturing Adjusted for Consumers' Price Index and for Consumers' Price and Productivity Indexes Combined, United States, 1947-1963**

Year	Average hourly earnings (A)	Consumers' price index, United States (B)	Productivity index, United States (C)	Hourly earnings adjusted for consumers' price index $\frac{(A)}{(B)} = D$	Hourly earnings adjusted for both indexes $\frac{(D)}{(C)}$
1947 .....	\$1.22	77.8	75.8	\$1.57	\$2.07
1948 .....	1.33	83.8	77.4	1.59	2.05
1949 .....	1.38	83.0	80.8	1.66	2.05
1950 .....	1.44	83.8	84.7	1.72	2.03
1951 .....	1.56	90.5	85.8	1.72	2.00
1952 .....	1.65	92.5	87.0	1.78	2.05
1953 .....	1.74	93.2	89.2	1.87	2.10
1954 .....	1.78	93.6	91.2	1.90	2.08
1955 .....	1.86	93.3	94.9	1.99	2.10
1956 .....	1.95	94.7	94.7	2.06	2.18
1957 .....	2.05	98.0	97.5	2.09	2.14
1958 .....	2.11	100.7	99.6	2.10	2.11
1959 .....	2.19	101.5	102.9	2.16	2.10
1960 .....	2.26	103.1	104.4	2.19	2.10
1961 .....	2.32	104.2	107.4	2.23	2.08
1962 .....	2.39	105.4	111.1	2.27	2.04
1963 .....	2.46	106.7	114.0(a)	2.31	2.03

a. Estimated.

Source: Gross average hourly earnings, see Table 1.

U.S. Department of Commerce, Bureau of the Census, Consumers' Price Index, *Statistical Abstract*, 84th Annual Edition, p. 356.U.S. Department of Commerce, *Survey of Current Business*, July, 1964, p. S-7.U.S. Bureau of Labor Statistics, *Comparison of Indexes of Labor and Non-Labor Payments, Prices and Output per Man-Hour; Productivity Index*—"Output per man-hour of employees in private, non-farm sector"; Dec. 23, 1963, p. 5.

deflated for the rise in the cost of living, and for annual productivity gains estimated at 3.2 per cent annually, the surprising conclusion is that labor has not increased its share of the national product. (See Chart 2, and Table 2.)

The Council of Economic Advisers report in 1965 drew a similar conclusion: "The division of income between labor and capital had undergone little or no change in the past

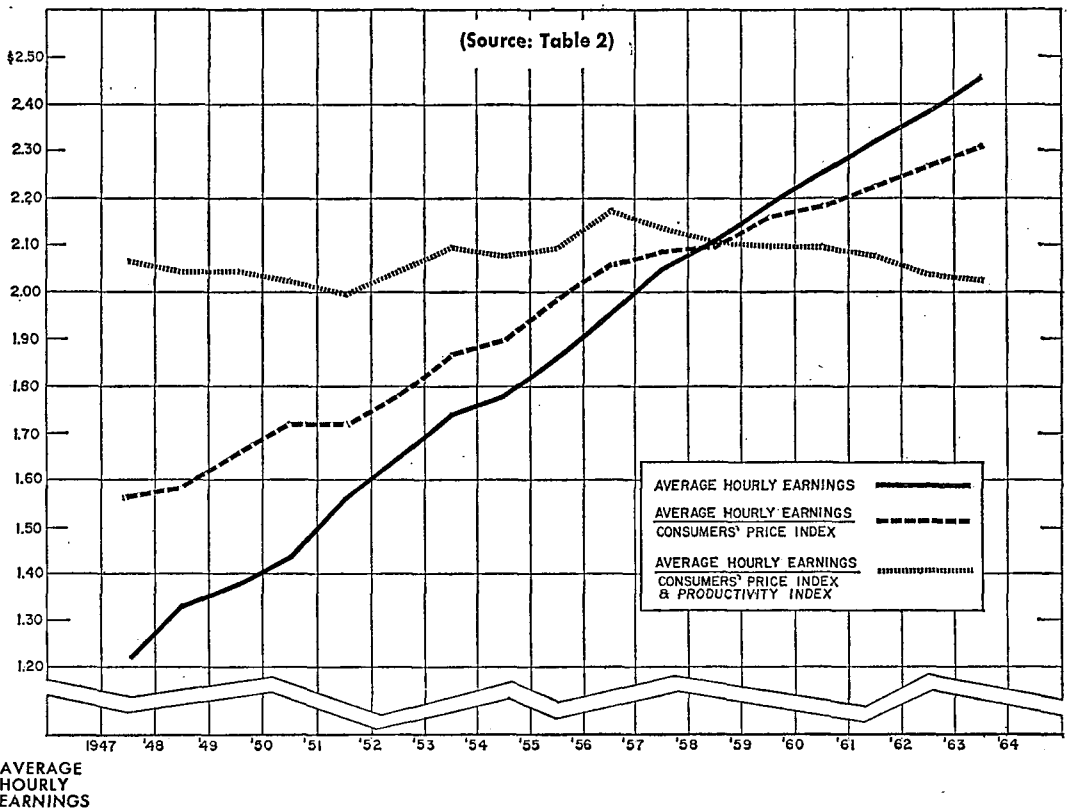
decade, other than changes associated with fluctuations in the level of business activity. Recent experience continues the pattern."<sup>8</sup>

Viewed in institutional terms, another significant development in our economy is the fact that now we have over 140 thousand contracts between labor and management, 90 per cent of which are negotiated peacefully and which do contain wage increase clauses. Furthermore, the prosperity of the nation and the different social atmosphere in which we live is indicated by the emergence on the American scene of trade unionism as a per-

<sup>8</sup> *Economic Report of the President* (Washington: United States Government Printing Office, January, 1965), p. 49.



CHART 2. GROSS AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS IN MANUFACTURING  
ADJUSTED FOR CONSUMERS' PRICE INDEX & FOR CONSUMERS' PRICE  
& PRODUCTIVITY INDEXES COMBINED—UNITED STATES, 1947–1963



manent institution with a net worth of approximately one billion dollars, an annual income of about one-half billion dollars and with a total union membership of about 17 million. This may be only about 25 per cent of the total eligible work force for unionism, but historically this is a great departure from the long-range union membership figures of four to five per cent of the total nonfarm work force.<sup>9</sup>

Since high productivity has been the key to the material progress of this nation, clearly both management skill and labor productivity made their contributions. However, in the collective bargaining process there is unending debate as to what constitutes the proper share for each in the bigger economic pie available.

<sup>9</sup> B. J. Widick, *Labor Today, The Triumphs and Failures of Unionism in the United States* (Boston: Houghton Mifflin Company, 1964), p. 32.

<sup>10</sup> George H. Hildebrand, "The Economic Effects of Unionism," Institute of Labor and Industrial Relations, University of California, 1958.

The long-range trends quoted indicate that the arguments really did not affect the course of events as much as the parties assumed. A similar point may be made about the heated debate over the question of a demand pull or cost push factor generating the postwar inflation.

In his study on the economic effects of unionism, George H. Hildebrand made this point about the differences many economists have regarding the role of unions and the problem of wage costs:

Despite differences of view regarding the importance of unionism as an independent and supplementary factor, there is broad agreement that monetary forces were the underlying cause of the postwar inflation and, indeed, are so for all inflations. Monetary expansion, for whatever reason, is the essential permissive condition. This suggests that the issue between the "demand-pull" and the "cost-push" version is a spurious one. What is really at issue is whether the fiscal-monetary authorities have lost control of the money supply.<sup>10</sup>

The impact of the recent tax cuts on the economy furnishes fresh evidence for the economists who insist that monetary and fiscal policies on the federal level are far more significant economic influences than the squabbles at the bargaining table.

Even in the early postwar period which was marked by a virulent debate between management and labor, who blamed each other for inflationary trends, an authoritative study revealed data which surprised most business and labor circles. The results were reported in *Business Week*.

... The Joint Economic Committee asked Ewan Clague's Bureau of Labor Statistics for a report on the interaction of wages, costs, productivity and prices in the postwar period. There was a general feeling that wage increases would prove to have been the main factor in starting the postwar inflation.

But the report Clague filed last week was a surprise—so much of a surprise that early reports missed its point entirely. Clague's data suggested that, instead of being the main initiating factor in post war inflation, labor costs per unit of output had actually lagged behind rising prices during most of the period.

The rapid rise in money wages during the 1948-1956 period made wages look like the principal mechanism of inflation. But Clague's study cites . . . factors that modify this picture: [e.g.] rise in productivity slowed down the increase in labor costs per unit of product so much that prices actually were rising faster than labor costs until the final year of the period.<sup>11</sup>

## COMPETITION IN WORLD MARKETS

Another basic indication of the resilience and strength of the American economy has been its ability to compete very successfully on the world market, again due to the high productivity of our industrial system. This has often been obscured in the preoccupation with the "dollar crisis" caused by the flow of gold abroad during the postwar period.

Our exports of goods have exceeded imports of merchandise every year since 1947. Since 1960, for example, exports of merchan-

dise were worth about \$19.5 billion compared to imports of \$14.7 billion. In 1961, comparable figures were: exports \$19.9 billion, imports about \$14.5 billion. In 1962, exports were about \$20.5 billion, imports \$16.1 billion; in 1963, exports were about \$22 billion, imports about \$17 billion; and in 1964 exports were about \$24.7 billion with imports at \$18.2 billion.<sup>12</sup>

United States economic and foreign policy, including vast expenditures (such as the Marshall Plan, the Point Four Program and military aid), caused an unfavorable balance of trade, and an outflow of over \$9 billion in gold reserves. Only a competitive economic system could "afford" such a strain. This competitiveness was shown by a study released in 1962, which Richard N. Cooper made for the Council of Economic Advisers. His comparisons between labor costs and production of goods showed that in 1959, for example, total labor costs per hour in the United States averaged \$2.68 compared with West Germany total labor costs per hour of \$.78. However, the average American worker produced \$3.89 worth of goods per hour, while the German worker produced only \$.96 worth of goods per hour. Comparing some other countries, we have the United Kingdom, total labor cost per hour \$.78 and production of \$.97 worth of goods per hour; Italy, \$.61 total labor cost per hour and \$.96 worth of goods per hour.<sup>13</sup>

This key question of competitiveness was put in proper balance in a Staff Report to the United States Senate Committee. It said:

Given an equal chance in the world market place, most American consumer goods are well able to hold their own despite the wage gap. This is so because the ability to compete internationally is determined not by differences in

(Continued on page 50)

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<sup>11</sup> *Business Week Magazine*, May 25, 1957, p. 52.

<sup>12</sup> *Economic Report of the President*, op. cit., p. 282.

<sup>13</sup> *U. S. News and World Report*, May 22, 1962.

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*As this specialist points out, "Clearly, those rights which management once considered inalienable by virtue of its position as representative of the owners of the business have been and are subject to continuing change." Nonetheless, he believes that "Those prerogatives we call management rights are the tools essential to management if it is to carry out its unique responsibility as organizer and decision-maker."*

## The Traditional Role of Management

By WILLIAM G. CAPLES  
*Vice-President, Inland Steel Company*

AS HISTORY is recorded, business management in the American economic system has had a brief history and a short tradition. Its role is still in the process of definition and its prerogatives and responsibilities are still in the process of determination.

The role of the manager is shaped both by the nature of the economic system and by the nature of the industrial technology; and in the United States both have been undergoing a process of rapid and continuous change.

When we speak of business management, we are usually referring to a group of individuals, collectively known as managers, who are employed by a single enterprise, compensated by the enterprise, and expected to manage a business for the benefit of another group of people who are the owners and who are usually called stockholders. Management's job is often defined as the planning, organization, and control of a business enterprise, or as the allocation of resources—human and natural—to achieve a desired objective of producing a product or service at the least

possible cost. So defined, business management is not more than about seventy-five years old.

It should be pointed out, however, that the art or science of "management,"—the art or science of leading people and administering organizations to achieve objectives decided on by others—is a great deal older.<sup>1</sup> The military leader charged with the responsibility for winning battles for his monarch, the colonial administrator who carried out the policies of his regent in a far-off country—these people were managers within this definition of the term.

History shows us that the ancient Romans were superb organizers and managers of complex and bureaucratic organizations.<sup>2</sup> They established Roman institutions and Roman law and administered the law and the policy of the government of Rome throughout the Western world. The oldest human organization on the face of the earth today, in terms of years of continuous uninterrupted existence, is the Roman Catholic Church, and the members of its management are among the most skillful known. Oxford University, the Sorbonne, and other European centers of learning have existed for centuries as organized bodies.

But none of these are business organizations. From the beginning of recorded history down through the Greek and Roman em-

<sup>1</sup> Problems of administration which now are considered management concerns were discussed by Niccolo Machiavelli in *The Prince* and *The Discourses*; by Henry Taylor, a Victorian civil servant, in *The Statesman* (1836), by Aristotle, in his *Politics*, by Saint-Simon, and Auguste Comte, among others.

<sup>2</sup> Raymond G. Gettell, *History of Political Thought* (2nd ed.; New York: Appleton-Century-Crofts, 1924).

pires, down through the Middle Ages and through the period when the British empire was at its height, management—in the sense of leadership of people and administration of organizations by persons employed specifically for these purposes—was regarded as the concern of the military or the political thinker. The businessman was not thought of as a major factor either in the economy or the society. Corporations such as the East India Company were organizations chartered by governments, and were exploring and trading firms with quasipolitical power. The use of the corporate structure for the conduct of business was almost unknown.<sup>3</sup>

Until the Industrial Revolution, business management as we know it today could not exist.<sup>4</sup> The typical businessman was a merchant or trader; manufacturing was of the handicraft level; the large industrial organization was unknown. Until the advent of the twentieth century, those responsible for the management of business organizations were normally either the actual owners of the business or those who held strong ownership interests. Most businesses were small; the relatively large ones were usually family enterprises. Their names usually showed this, for instance, the House of Rothschild, and the House of Krupp. These and other large and complex European business organizations were usually ruled by powerful families. The same was true of some of the older of the large American industrial concerns. Who has not heard of the DuPonts?

## THE INDUSTRIAL REVOLUTION

The Industrial Revolution—first in Britain and continental Europe and then in the United States—created a radical change in

the nature of conducting business and in the role of business management. The factory system of production, the trend toward specialization of labor, the need to amass large quantities of capital and vast numbers of workers of all levels of training and skill, and to organize these resources of capital and labor for the efficient production of goods in ever-increasing quantities, created an economic system in which those who owned and directed these resources held at their disposal unprecedented aggregations of economic power and confronted new and complex problems of organization.

During the years following the Civil War, modern American industry had its beginnings and the industrial structure which exists today first began to develop.<sup>5</sup> The railroads expanded westward; coal and iron resources were developed and the technology which made possible our modern steel industry was created; the Rockefellers, the Harrimans, the Morgans, the Mellons and other industrial families built fortunes and established many of the firms which still today lead the *Fortune* magazine list of the 500 largest United States corporations.<sup>6</sup>

In the steel industry, certain individuals and certain families established and managed, on a personal or family basis, those steel companies which were founded in the late 1800's. Indeed, most of the great industrial enterprises founded during that period were to a striking degree one-man enterprises. Ownership and management were in the same hands—the hands of the founder and his family or, in the case of firms formed by merger, in the hands of the founders of the merged firms. The salaried employee-manager had neither the power, nor the responsibility, nor the prestige which he possesses today. And the role of management was equivalent to the role of ownership, with all the private property rights that the term ownership carried with it.

It is difficult if not impossible to designate a specific point in time to use as a beginning from which to trace the development of the occupation of the paid manager we know today.

However, beginning with the passage of the

<sup>3</sup> A. B. Dubois, *The English Business Company after the Bubble Act, 1720–1800* (New York: The Commonwealth Fund, 1938).

<sup>4</sup> Joseph S. Davis, *Essays in the Earlier History of American Corporations* (Cambridge: Harvard University Press, 1917).

<sup>5</sup> Thomas C. Cochran and William Miller, *The Age of Enterprise: A Social History of Industrial America* (New York: Harper, 1942).

<sup>6</sup> Stuart Holbrook, *The Age of the Moguls* (New York: Doubleday, 1950), and Matthew Josephson, *The Robber Barons; The Great American Capitalists 1861–1901* (New York: Harcourt, Brace, 1934).

Sherman Anti-Trust Act in 1890, several concurrent and interrelated changes in the nature and role of American business management occurred. The most important of these were four: first, the increasing control of business by government, and the consequent restrictions on the freedom of businessmen to manage their businesses as they see fit; second, the sharing of power over the terms and conditions of employment in business with representatives of the employees (and in certain specific areas, with government agencies); third, the separation of ownership from control in many large businesses, so that the legal owners—the stockholders—do not participate directly in the direction of the firm in which they hold stock; and fourth, the development, still in its beginning stages, of a profession of management which conceives of itself as a body of men with certain specialized skills which they make available to organizations requiring these skills.

### COMMITMENT TO EFFICIENCY

But the passage of the Sherman Act is more than just a convenient starting point for the consideration of these developments. It marked the beginning of a public policy or business philosophy that economic competition, enforced by law, is essential to the general welfare. A commitment to competition carries with it a commitment to efficiency; and since 1890, American economic policy has been based on the theory that profit is to be achieved only in the face of competition and cannot be garnered by achieving monopoly power in a particular market. And since profit is to depend only on being able to win the contest of competition, then profit can be achieved only by the efficiency of the business. Management's task, individually and collectively, thus became that of achieving efficiency within the rules of the game as established by government.

Efficiency, in this sense, can be defined as the science of securing the greatest output in return for a given input or as the science of

securing a given output of product or service for the least cost. Either way, it is the special concern of managers. The skill of management, whether it is considered to be an art or a science, consists of the ability to combine human talents and material resources to achieve a desired output of goods or service at the least possible cost. In the private sector of our economy, the way we determine whether or not the objective is achieved and at what cost is by the profit realized.

Our present concern for efficiency in the use of human resources and capital followed closely upon the trustbusting period at the turn of the century and thereafter when some of the major management-operated (as against owner-operated) firms became leaders.

It was at about this time also that the role of government as business regulator began to develop. The *laissez-faire* philosophy of nineteenth century liberalism limited the role of government in relation to business to a few elementary and indispensable activities: protection of property rights and enforcement of contracts, establishment of a sound currency, promotion of inventive activity through patent monopolies, and promotion of business enterprise through land grants, tariffs, and subsidies.

First efforts by the federal government to exercise some degree of control over private business came with the passage of the Interstate Commerce Act in 1887; and for many years thereafter, until the advent of the New Deal, direct governmental control of the activities of private businesses was pretty well limited to public utilities in which a private monopoly was granted more or less in exchange for the right to regulate.

The Sherman Anti-Trust Act, passed in 1890 in response to public demand for control of monopolies and combinations in restraint of trade, marked the first federal effort to restrain monopolistic growth and encourage competition. Monopolies had traditionally been considered contrary to the common law, but state efforts to control this type of business behavior were clearly inadequate, as indeed were early federal efforts to secure convictions under the Sherman Act.<sup>7</sup> During the first ten

<sup>7</sup> Edward A. Adler, "Monopolizing at Common Law," *Harvard Law Review*, Vol. 31 (1917), p. 246. ff.



years of the Act, only one major prosecution was undertaken—and the government lost.<sup>8</sup>

More vigorous efforts to break up the trusts took place during the administrations of Theodore Roosevelt and William Howard Taft,<sup>9</sup> and in 1908 and 1909 the Department of Justice succeeded in breaking up the Standard Oil trust<sup>10</sup> and the American Tobacco trust.<sup>11</sup> In his opinion in the Standard Oil case, however, Chief Justice Edward D. White introduced the "rule of reason" into the judicial interpretation of the Sherman Act, and from that point forward enforcement of the act was subject to the uncertainty of an individual's definition of "reason."

Efforts to eliminate this uncertainty and to enable the government to take action to prevent monopolistic concentration account for the passage in 1914 of the Clayton Act and the Federal Trade Commission Act, and still later, in 1936, of the Robinson-Patman Act, and in 1950, of the Celler-Kefauver Anti-Merger Act amending Section 7 of the Clayton Act.<sup>12</sup> All this legislation was directed toward correcting what were felt to be imperfections in the competitive system of American business.

In addition to this stream of legislation dealing with monopoly, economic concentration and unfair competition, federal and state governments have, especially since the period

of the Depression, enacted a series of laws designed to protect three major groups of persons—stockholders, workers and consumers—from certain types of corporate behavior. Each of these enactments has meant that business management is forbidden to do something which it previously had a "right" to do.

The protection of the interests of a majority of small shareholders from the activities of a tightly-knit minority control group or from a management which may hold few or no shares at all is a continuing problem; but it was not an area of great public concern until after the 1929 stock market crash. Originally this field was a state responsibility, but state laws were relatively ineffective; and following federal investigations, Congress passed the Federal Securities Act of 1933, the Securities and Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Chandler Act of 1938 amending the bankruptcy laws, the Trust Indenture Act of 1939, and the Investment Company and Investment Advisers Act of 1940. The Securities and Exchange Act established the Securities and Exchange Commission, which administers these laws for the benefit of the investing public.<sup>13</sup>

The earliest legislation in the long series of efforts to provide protection for employees began with the enactment of compulsory workmen's compensation laws. Ten states enacted such laws in 1911; the first to go into effect was in Wisconsin, on May 3, 1911.<sup>14</sup> These statutes deprived management of the traditional common law defenses in cases of industrial accidents, adopted the principle of liability without fault, and required payment to an injured employee or to the family of an employee killed on the job regardless of how or why the accident occurred, so long as it arose in the course of employment.

During the 1920's a number of states enacted protective legislation to limit the hours and regulate the conditions of employment of women and children. The first minimum wage act, covering women and minors, was adopted by Massachusetts in 1912. The federal government effectively entered this area with the passage of the Fair Labor Standards Act in 1938.<sup>15</sup>

<sup>8</sup> U.S. v. E. C. Knight Company, 156 U.S. 1 (1894).

<sup>9</sup> Martin L. Lindahl and William A. Carter, *Corporate Concentration and Public Policy* (3rd edition; Englewood Cliffs, N.J.: Prentice-Hall, 1959).

<sup>10</sup> U.S. v. Standard Oil Co., 173 Fed. Rep. 177 (1909), 221 U.S. 1 (1911).

<sup>11</sup> U.S. v. American Tobacco Co., 164 Fed. 700 (1908), 221 U.S. 106 (1911).

<sup>12</sup> Melvin Anshen and Francis D. Wormuth, *Private Enterprise and Public Policy* (New York: Macmillan, 1959), ch. 4.

<sup>13</sup> *Ibid.*, ch. 6.

<sup>14</sup> Monroe Berkowitz, *Workmen's Compensation*. (New Brunswick, N.J.; Rutgers University Press, 1960), p. 3.

<sup>15</sup> A federal child labor law was enacted in 1916 and declared unconstitutional in 1918; a second was enacted in 1919 and declared unconstitutional in 1922. For a study of state and federal protective legislation, see Evelin M. Burns, *The American Social Security System* (New York: Houghton Mifflin, 1949), and Harry A. Millis and Royal E. Montgomery, *The Economics of Labor* (New York: McGraw-Hill, Vols. I and II, 1938; Vol. III, 1945).

Today, state and federal laws cover a myriad of topics dealing with safety, occupational health, minimum wages, maximum hours, the conditions under which migratory workers must be housed, and many other topics. Each of these enactments has meant that management's right to determine wages, hours, and working conditions has been further restricted in the interests of the health and safety of its employees, and management has learned to live within these restrictions.

In addition to the category of legislation we may characterize as health and safety laws, a second kind of restriction on the right of management to employ whom it pleased for whatever reasons it pleased was instituted by New York in 1945 when it passed the first state fair employment practices act, forbidding discrimination in employment because of race, religion, or national origin.<sup>16</sup> The scope and coverage of this type of legislation have steadily expanded, with some states including age and sex discrimination among the forbidden types, and with an increasing number of states enacting such laws. The Civil Rights Act of 1964 gave federal protection to this right—not to be discriminated against—outlawing discrimination by any employer whose business “affects commerce” and who employs more than a specific number of employees.<sup>17</sup>

A third area of governmental regulation of management activities has to do with management's dealings with labor unions and with the collective bargaining process.<sup>18</sup> An early attempt to legislate in favor of unions was contained in the Clayton Act, by which Congress attempted to exempt unions from the antitrust provisions of the Sherman Act. This

effort, however, was unsuccessful, and the right of employees to organize and bargain collectively was not firmly established for several years. In 1926, Congress passed the Railway Labor Act, requiring covered employers to bargain collectively and to avoid discrimination against employees who joined unions. The act also provided for the settlement of railway labor disputes through mediation, voluntary arbitration, and fact-finding boards.

The concepts of the Railway Labor Act were extended to cover all employers in interstate commerce by the passage of the National Labor Relations Act in 1935; and this act as amended in 1947, 1951, and 1959, continues to be our basic labor law. The number and kind of issues upon which employers are required to bargain collectively with unions have been continuously expanding as the National Labor Relations Board and the courts interpret the act; consequently here also management's right to decide what is best for the enterprise is contracting.

For example, until 1949, management assumed that the terms of pension plans and similar employee benefit plans were not subject to collective bargaining. However, in a case involving the author's own company (*Inland Steel Company v. NLRB*),<sup>19</sup> it was decided that benefit plans are a part of wages and thus mandatory subjects for bargaining. This decision opened a great new area of bargaining which has grown enormously since that time.

## MANAGEMENT'S RIGHTS

Management's right to subcontract work to outside firms rather than have it done by its own employees, management's right to determine how vacation periods shall be handled, to move a plant from one geographical location to another, to close one plant and move work to another, and to make a host of other decisions have been and appear to continue to be restricted by unions and by arbitrators interpreting the sometimes ambiguous language of collective bargaining agreements.<sup>20</sup> Although it must be recognized that management is still “in charge” in most cases, these restraints are a real problem to many firms.

<sup>16</sup> Jack Greenberg, *Race Relations and American Law* (New York: Columbia University Press, 1959), p. 192.

<sup>17</sup> For analysis of this act and its coverage, see Bureau of National Affairs, Inc., *The Civil Rights Act of 1964*. (Washington, D.C.: BNA, Inc., 1964).

<sup>18</sup> For a history of these developments see Charles O. Gregory, *Labor and the Law* (New York: Norton, 1961).

<sup>19</sup> 170 F.2d 247.

<sup>20</sup> See, e.g., *United Steelworkers of America v. Warrior and Gulf Navigation Company*, 46 LRRM 2416 (1960), and the annual proceedings of the National Academy of Arbitrators.

The right of management to be "in charge"—to operate the enterprise in an economically efficient manner and to make decisions that will accomplish that end—is based on two somewhat different theories.<sup>21</sup> The first—the legal basis for management rights—is that management as representative of the owners of the enterprise is vested with all the power, authority, and privileges that accompany ownership. The second or functional basis for asserting the right of management to manage is that as a practical matter an organization will not function effectively unless certain designated people are charged with the general overall responsibility for directing it and are given the right or power to effect such direction. Managerial decisions, according to this approach, require the specialized training and the skills of the trained professional manager, and in the interests of the enterprise as a whole must be left to him.

The legal argument has suffered somewhat in recent years with the growing recognition that in many large businesses there has developed a substantial split between ownership and control so that those who technically own the enterprise exercise little if any control over its operation.

An early study of the locus of control of the 200 largest nonfinancial corporations in the United States was conducted by A. A. Berle and Gardiner C. Means in 1932.<sup>22</sup> At that time they found that in 88 of these companies control was in the hands of a management group without appreciable ownership interest. Since that time the informed consensus holds that this number has increased. In such cases, no individual or small group of stockholders has a minority interest large enough

to dominate the affairs of the company. More recently, the demand for common stock as a medium for investment by pension and insurance trust funds has grown enormously, and the trustees of these funds do not as a rule concern themselves with the actual operating problems of the firms in which they are investing the beneficiaries' money.<sup>23</sup> Ownership of this stock has been effectively separated from control, and control remains in the hands of nonstockholding management because pension and insurance trustees choose not to exercise it, as well as because small individual stockholders find their remedy for bad management in the sale of their interest rather than in efforts to exercise control over the board of directors. As John F. A. Taylor, Professor of Philosophy at Michigan State University, observes:

The owner comes and goes in the firm; the employee remains and governs. The shareholder is transient, the manager permanent.<sup>24</sup>

The functional basis for asserting the existence of management rights assumes that certain decisions require the specialized training and the skill of the manager, and in the interests of the enterprise as a whole must be left for him to make. This argument is as applicable to a governmental agency or to a non-profit organization such as a university as it is to a business enterprise. L. H. Hill said:

Our form of business organization is not a result of our particular system of politics or economics. Countries having an entirely different political and economic system have, after much painful experimentation, resorted to identically the same system of authority flowing from a single manager or management group down to the rank and file employee . . . it is not the economic or political theory but the demands of efficient production that require authority at the disposal of management.<sup>25</sup>

Management rights in a free society, regardless of the theoretical basis adopted for their justification, include the rights to organize the business, decide upon its location, the products or services which it shall provide, in general the methods by which these products or services are to be produced, the prices at which they are to be sold, the markets to be

<sup>21</sup> Alton W. Baker and Franklin S. Rawson, *Management Rights* (Columbus: Ohio State University, Bureau of Business Research, 1950).

<sup>22</sup> *The Modern Corporation and Private Property* (New York: Macmillan, 1932).

<sup>23</sup> Adolf A. Berle, *Power without Property* (New York: Harcourt, Brace, 1959). See also Paul P. Harbrecht, *Pension Funds and Economic Power* (New York: Twentieth Century Fund, 1959) and Peter F. Drucker, "The New Tycoons," in *America's Next Twenty Years* (New York: Harper, 1957).

<sup>24</sup> "Is the Corporation above the Law?" *Harvard Business Review*, March-April, 1965, p. 125.

<sup>25</sup> L. H. Hill, *Pattern for Good Labor Relations* (New York: McGraw-Hill Book Co.), p. 233.

served, the financing methods to be used, and a myriad of other decisions which inevitably must be made in the course of managing a business.

The right of management to make these basic business decisions is a necessary prerequisite for establishing accountability for decisions and for determining responsibility for mistakes. At least as important as the traditional property justification for the existence of these rights is the justification that they are earned—earned by training, earned by professional qualifications, and earned in the long run by success. And success is measured by the ability to earn a continual profit in the contest of competition within the rules set by the society, the legal code of the country in which the business is conducted.

### SCIENTIFIC MANAGEMENT

Management's concern with efficiency of operation, which has become increasingly important as the network of laws, rules and regulations grows more complex, began with the work of a group of five original thinkers whose ideas gained support during the period between 1900 and World War I. They are Frederick Taylor, Henri Fayol, Max Weber, Luther Gulick and Lyndall Urwick.<sup>26</sup> Only the first two had direct personal experience in private business. The others were more directly involved in public administration and in military life but they brought to business important concepts which had first been developed in governmental and military organizations.

Taylor is known as the father of the scientific management movement. His work was primarily concerned with the development of improved work methods in order to get more production from industrial workers.

Fayol was concerned not so much with improving the efficiency or output of workers,

<sup>26</sup> For a summary of the contributions of these men to management thought, see Bertram M. Gross, *The Managing of Organizations* (New York: The Free Press of Glencoe, 1964), ch. 6.

<sup>27</sup> See Thomas C. Cochran, "Business and Democratic Tradition," *Harvard Business Review*, March-April, 1965, p. 421.

<sup>28</sup> See Lyndall Urwick, *The Golden Book of Management* (London: Newman Neame Ltd., 1956), p. 62.

but rather with the improvement of methods of administration. He was, in many ways, the father of administrative theory.

Max Weber, who is often accepted as the founder of modern sociology, was the first to study the theory of bureaucracy and the structure and functioning of the large formal organization. His work became relevant to business as the increasing size of firms began to require ever-increasing numbers of subordinate managers and staff specialists. Bureaucracy in private enterprise appears to have grown parallel with the development of a class of professional business managers.<sup>27</sup> Here too we find that certain problems which originally were associated with government and political administration have also become the problems of private business.

The last two of the five originators of modern managerial thought—Gulick and Urwick—were profoundly influenced in their work by the principles of military organization.

All five of these men began to build the foundations of the profession of business management by bringing to bear on business problems the theories and techniques which had been developed in nonbusiness organizations.<sup>28</sup>

The second source of ideas influential in the development of management as a profession has been the field of the social sciences—psychology, sociology and anthropology, as well as the long-accepted field of economics. Added to the administrative concepts of military and political science were ideas concerning the behavior of human beings, as individuals and in groups, as they function in a work environment. Studies of their wants, needs, and motivations and of the relationships between these factors and such work-related factors as absenteeism, turnover and productivity became part of the training of a "professional" manager.

One of the first writers on business administration to take up these problems—the problems which later became known as the human relations aspects of business—was Mary Parker Follett. On one occasion she observed: "Psychology, as well as your own observation, shows us that you cannot get people to do things most satisfactorily by



ordering them.”<sup>29</sup> Her respect for what psychology can show us about managing people was a new approach to the traditional leadership function of “getting things done through people.”

The first major research effort in which the social sciences were applied to solve industrial problems is almost current.<sup>30</sup> It was conducted during the years from 1925 to 1932 at the Hawthorne plant of the Western Electric Company, in Cicero, Illinois, a suburb immediately adjacent to Chicago. Conducted by Elton Mayo, a psychologist, and Fritz Roethlisberger, his research associate, it began as an effort to determine whether or not there was a relationship between proper lighting and a worker's output. However, as the experiments progressed, they were enlarged to take account of a variety of physiological, psychological and other factors.

Efforts were made to measure how output is affected by changes in the work environment, beginning with lighting. Changes were made in the timing of rest periods and lunch periods, in the length of the work day and work week, and in methods of compensation. However, as the experiment went on, the experimenters observed a continuing improvement in the level of morale of the employees, as well as in their productivity, almost without respect to the nature of the changes made in the physical conditions of work.

The surprising result seemed to be that no clearly identifiable physical factors accounted for changes in attitude or productivity, but rather that the nature of the personal relationships between workers and their supervisors and among the workers themselves was most influential. Changes in the nature of supervision and other human relations factors

were found to be at least as important as the more obvious characteristics of the work environment and equally as important as the monetary incentives.

Thus began the interest of management—always compelled to improve efficiency if the enterprise is to survive—in the contributions which the social sciences could make toward efficiency. From that time on, the developing profession of management began to require a working knowledge of industrial psychology and industrial sociology.

Today a substantial and varied body of theoretical and practical knowledge drawn from a wide variety of sources makes up the material used to educate the professional manager. He or she is not expected to be a specialist in any of the contributing academic disciplines, but is expected to be able to use the findings of all of them and to apply these findings to the leadership and administration of business organizations.

The establishment in 1908 of the Graduate School of Business Administration at Harvard University marked the first effort to educate young men for management as a profession in a way similar to that by which physicians, teachers, ministers and lawyers are educated.<sup>31</sup> Since that time professional education for business management has become an accepted

*(Continued on page 50)*

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<sup>29</sup> From the collected papers of Mary Follett, as quoted by Bertram M. Gross, *op. cit.*, p. 153.

<sup>30</sup> *Management and the Worker*, by Roethlisberger and Dickson (Cambridge: Harvard University Press, 1939), is the definitive description of these experiments.

<sup>31</sup> George P. Baker, "The Role of the Business School in the Economic Development of the Country" in *Business Schools and Economic Growth*, Proceedings of C.I.C. Conference on Productivity and Economic Growth (Ann Arbor: University of Michigan Graduate School of Business Administration, 1964), pp. 10-11.



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*In the twentieth century, "on the whole, the state and federal governments [have] tried to eliminate strikes by providing conciliation and mediation services on both a formal and informal basis," notes this economist, who maintains that, nonetheless, labor's right to strike is not questioned today.*

# The Right to Strike

By PHILIP TAFT

*Professor of Economics, Brown University*

THE STRIKE for years has been a method through which workers and their unions seek to influence the terms of employment. The strike is a withdrawal of some or an entire group of employees in pursuance of one or more objectives. Similar to the strike, the lockout is an employer's suspension of work induced by an employer's demand for a change in the conditions of work. Because it is not always easy to distinguish them, lockouts are generally treated as strikes. The strike was first noted in the late eighteenth century, and has since continued in smaller or greater measure. Business conditions, the activities and attitudes of government, the feeling of dissatisfaction, the level of union organization, and the renewal of labor agreements are some of the important factors that influence the number of strikes.

Extensive organizing drives and general dissatisfaction which accompany wide shifts in the labor force, as in wartime, may cause a sharp rise in the incidence of strikes, but a return to more normal trends follows the exhaustion of the unusual influences that were responsible for the rise in the strike incidence.

Strikes can be spontaneous, in the sense that they are not prearranged but are triggered by some action by the employer or his supervisor or by the failure to deal with some situation in accordance with the expectations

of the work force. Most strikes in the past and present, however, have been planned. In most instances, workers will agree in advance to strike if the employer fails to make minimum concessions in wages, the terms of employment, or both. A strike may also be called to compel the reinstatement of a union activist or officer discharged by the employer.

The overwhelming number of strikes are called by unions and their outcome is often influenced by the climate of opinion and the attitude of government. Although pioneer unionists were inclined to avoid political involvement, they recognized the power of the government to influence the outcome of labor disputes. Government has in the past, as well as in the present, defined the rights, duties and permissible activities of labor organizations. In no area is the government's view more important than in those which affect the right to strike and the limitations upon that right.

Strikes affect not only the worker and his employer, but can also have significant repercussions upon those not directly involved in the dispute. The right of workers to strike has long been conceded. Justice Lemuel Shaw of the Massachusetts Supreme Court observed (in *Commonwealth v. Hunt*), in 1842, that workers had a right peacefully to withdraw their services in pursuit of lawful objectives. The same decision recognized the demand for an increase of wages, and the

refusal to work with a nonmember of a union, as lawful and proper objectives of joint action by employees. Although the views of a Massachusetts court do not control decisions outside of that commonwealth, the learning of the jurist, the cogency of the decision, and the realism with which it approached a question of growing importance gave it considerable influence outside the borders of the state.

Strikes can be called to effect political changes, or in support of some cause or group, but in the United States, a strike has usually followed a breakdown of bargaining and the inability of the parties to reach an agreement. The justification of the strike has been a simple one. Workers standing alone have lesser bargaining power than the employer; they possess fewer resources and their ability as individuals to bargain successfully is generally low. The government's interest follows from its desire to prevent the economic losses which may follow labor disputes, to prevent harassment of those who wish to work, to protect the employer's property and allow him full access to the labor and commodity markets during the course of the dispute.

The growth of industry, increasing urbanization, improved mobility of labor and the growth of unions all contributed to the rise in labor disputes. For a time, their occurrence made a relatively small impact upon the public. In fact, for a time it was widely believed that the United States would escape the tensions and struggles shaking Europe, and that the turmoil and strikes which were an accompaniment of industrialization there would be avoided.

### STRIKES AND RIOTS, 1877

The railroad strikes and riots of 1877 changed the thinking of large numbers on this question. The strikes themselves were a manifestation of deep dissatisfaction with the successive wage cuts that followed the decline of business and employment in the early 1870's. When the Baltimore and Ohio Railroad announced another wage reduction, the crews on many of its trains left their jobs.

The attempt to operate with strikebreakers was met with armed resistance which was ended only by the arrival of federal troops sent by a reluctant President.

Federal troops were also necessary to restore order in Pittsburgh as a result of the strike and rioting which followed a notice that the Pennsylvania Railroad was introducing double-header trains. Fearful that the use of two locomotives meant longer trains and fewer jobs, the railroad workers went out on strike and tried to prevent others from taking their place. In a pitched battle, they drove several companies of national guardsmen to cover. Only a quickly-assembled citizens force managed to restore a semblance of order, but not until the arrival of federal troops was the city secure from looting by roving bands of marauders. Chicago, New York, St. Louis and other cities were also affected during 1877 by walkouts of railroad men, although none suffered as severely from rioting as Pittsburgh. These sporadic demonstrations were unconnected with each other, and served no useful purpose except to stimulate the first congressional investigation of the labor problem. In the hearings that were held for three years, business men, labor officers and government officials testified on the cause and cure of existing discontent. Some explained the utility of the strike as a means of equalizing the bargaining strength of the parties and as a method of gaining concessions by organized labor.

Increasing interest in the avoidance of strikes appeared among government officials. State boards of conciliation and arbitration were first established in the late 1870's and 1880's. Moreover, for the first time, in 1888, the federal government took cognizance of the desirability of peaceful settlements of differences between management and labor on the railroads, and set up an agency for mediating differences. While this effort was not a very successful one, it indicated greater awareness of the need to avoid strikes on the nation's carriers. In general, government tended to be formally neutral in labor disputes, although intervention to protect property was inevitable.

The rise in influence and numbers of the Knights of Labor during the latter part of the 1880's tended to increase the number of disputes, and in several railroad strikes led by the Knights, the governors of several states affected by the walkouts intervened and suggested settlements. Such intervention by some agency of government was sometimes effective in bringing about a compromise of the issues, but employers unwilling to bargain with their employees were often not amenable to such pressure.

### GOVERNMENT'S CHANGING ROLE

The right of workers to organize unions and to strike for improvements in wages and working conditions was generally acknowledged, but the attitude of government, especially the courts, was of considerable importance in determining the effectiveness with which the walkouts would achieve their goals. Theoretically a strike might be allowed, but many actions to promote its success might be restricted by the courts. Some strikes, such as those supporting the closed shop or protesting work assignments, might also be held improper and might therefore be ruled illegal. During the 1880's, the use of restraining orders and injunctions in labor disputes was first used by the courts, and they became a favorite method for restricting picketing or the boycott. Upheld by the United States Supreme Court in the *Debs* case in 1895, the injunction became a favorite device for restricting the activities of workers during strikes. Initially, these orders were issued to prevent irreparable harm to a business during a strike or to protect a plant and its employees against violence, but there was a tendency for courts to widen the scope of their orders. Such directives had to be obeyed and violators were subject to punishment for contempt.

Early in the present century, organized labor consequently began a campaign for relief against the labor injunction, hoping for a law which would restrict the power of the courts to issue these orders. The campaign was conducted in Congress and in the state legislatures, but it took years before relief was obtained. Aside from intervening in strikes,

and seeking settlements through conciliation and mediation, neither the state nor federal government had much direct power to affect the course of a walkout. Employers could and did refuse to accept the suggestions of the head of a state government, the mayor of a city and even of the President of the United States. On occasion, all these officials could mobilize public sentiment behind their pleas for a more moderate policy, but they could not compel an employer to accept the demands of strikers or even to deal with them.

In the hope of facilitating labor peace, states appointed boards of conciliation, and the federal government named a board of mediation and conciliation to aid the railroads and their employees to reach peaceful agreements. While the government did not have formal power to compel employers to accept compromises to avoid or settle strikes, it could on occasion, as in the anthracite coal strike of 1902, mobilize public opinion and compel the operators and the union to accept the recommendations of a government-appointed commission.

Nor were nonpartisan public bodies completely without influence. Between 1900 and World War I, the National Civic Federation, a group made up of public, management and labor representatives, sought to develop methods of settling labor disputes, and the intervention of the leaders of that organization in many disputes helped to prevent the calling of strikes, and brought a settlement to a number after they were called. In the steel strike of 1901, and in the anthracite coal strikes of 1900 and 1902, the National Civic Federation played an important role in mobilizing sentiment for a peaceful settlement. The wide acquaintance of the leaders of this organization with officers of labor and leading corporations gave them an opportunity to exercise a mediating role in many labor difficulties.

Government bodies, such as the Industrial Commission at the turn of the century, and the Commission on Industrial Relations in 1915, both endorsed collective bargaining as a desirable method for negotiating the terms of employment, and such bargaining meant the toleration of occasional strikes. In addi-

tion, students, together with leaders of the National Civic Federation, believed that trade unionism with its generally moderate policies and cooperativeness with management was preferable to the more radical doctrines of anarchism and socialism which were vying for the support of American labor. Some public men and leaders of business believed that, if the American worker was denied an opportunity to defend and improve his position through the generally peaceful methods of trade unionism with its occasional strikes, workers would turn to more radical panaceas.

### EMPLOYER HOSTILITY

On the other hand, many employers in the first three decades of the century were hostile to trade unions. Such employers believed that the work of the National Civic Federation with its program of conciliation and mediation served to strengthen organized labor, that the unions were guilty of various abuses, and that only if the employer retained absolute power in the plant could maximum efficiency (which would then redound to the advantage of all the people) be attained. Determined not to allow a union to gain a foothold on their premises, these employers believed in an active policy of opposition and prevention. In the case of a strike, they followed a program of replacing those who had left their jobs. Impervious, generally, to appeals from public officials for more conciliatory policies, these employers insisted that their right to operate, and the safety of their property, be protected during labor disputes. The government had the duty to protect workers against harassment, and property against the violence of those who did not wish to accept the terms of employment offered.

No one challenged the workers' right to strike, but the conduct permissible on the picket line was not so clear. The issues here revolved around the conflict of rights, the workers' right to strike and the employers' right to protection of his business. Because courts tended to favor the employer during labor disputes, the unions sought to restrict their power to restrain the activities of strikers and their sympathizers. The labor provisions

of the Clayton Act followed directly from the campaign of organized labor to restrict the power of the federal courts to issue injunctions in labor disputes.

Section 6 declared that:

the labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor . . . organizations instituted for the purpose of mutual help . . . or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor . . . be held or construed to be illegal combinations or conspiracies in restraint of trade. . . .

Section 20 prohibited the issuance of injunctions in disputes over the conditions of employment unless it were necessary to prevent irreparable harm to the party seeking the injunction and for injury for which there was no adequate remedy at law. Samuel Gompers, the head of the American Federation of Labor, expressed the view of the labor movement when he described this law as the great charter of labor. In *Duplex v. Deering*, the first case under the Clayton Act, the court concluded that the law protected labor in the exercise of its legitimate objects, and that a union could not be held guilty of restraint of trade "merely because of its existence and operation." However, the court rejected the right of a union to carry on a sympathetic strike against an employer having no direct relation or interest in a dispute between a union and an employer.

Beginning with the *Hitchman* case in 1917, and ending with the *Bedford Stone* case in the late 1920's, the decisions of the United States Supreme Court tended to restrict the activities of labor, including its power to strike. The *Hitchman* case protected a business in its right to employ "its men only upon terms of continuing nonmembership" in a union. The court held the employer could not only make nonmembership in a union a condition of employment, but that this "is a part of the constitutional rights of personal liberty and private property not to be taken away even by legislation, unless through some proper exercise of police power." An attempt to recruit into a union workers signing agreements

not to join a labor organization constituted an attempt to induce a breach of contract and the employer was entitled to an injunction against such efforts because the damage resulting would be irremediable at law.

In the railroad industry, the government was active in strike prevention. Because a widespread tie-up of transportation would inflict severe harm upon the economy and society, the government sought to devise methods of peaceful settlement. Not only had methods of conciliation been devised but, in several disputes between the carriers and their employees between the turn of the century and 1917, the President induced the parties to accept arbitration by impartial panels which he appointed. Dissatisfaction with the results led to a movement by the operating unions to avoid this method of settlement. In 1916, the unions of engineers, firemen, brakemen and conductors demanded the eight-hour day. When a threat of a national railroad strike followed the carriers' refusal, Congress responded to the appeal of President Woodrow Wilson and enacted the bill establishing the eight-hour work day for those in the operating crafts of the railroads.

### CHANGING PUBLIC SENTIMENT

While the courts tended to restrict the range of activity of unions during strikes, sentiment recognizing the necessity of unions and collective bargaining in a modern industrial society was on the rise. The United States Commission of Industrial Relations, appointed by President Woodrow Wilson, endorsed collective bargaining and, inferentially, the use of the strike. The various labor-management boards appointed to facilitate the recruiting and the use of labor in the war effort in World War I tended to endorse the existence of unions, which meant they recognized the inevitability of strikes. The War Labor Board, established towards the end of the war, had as one of its primary purposes the elimination of wartime strikes. Yet, by protecting the right of workers to join unions, it influenced the number of strikes in the postwar period.

The Board was not successful in completely

subduing labor disputes. In fact, the annual number of strikes reached a peak during the war. In part, the rise of strikes was the result of sharp increases in demand for labor, the shifts from job to job, and the buoyant labor market. The strikes, moreover, were usually of short duration, and were frequently called against the advice of union leaders.

The strikes in the postwar early 1920's were the result partly of the actions of employers who had been compelled by government pressure or the shortage of workers to tolerate unions in their plants. On the other hand, considerable discontent existed among workers, and the belief that the opportunity for substantial gains existed was widespread in the ranks of labor. The American Plan of Employment, a well-financed employer group, was also active in an antiunion campaign.

As a result, the country witnessed the greatest number of strikes in its history. Hundreds of thousands of workers struck in the coal mining, steel, maritime, railroad and building construction industries. By and large, the unions were defeated, and the strikes themselves were surrounded by violence and serious disorder. In most of the strikes of the period the government supported business. In the bituminous coal strike of 1919 and the railroad shopmen's strike of 1922, the government actively intervened and sought injunctions against the strikers. The use of police, national guardsmen and even federal troops, as in Gary, Indiana, during the steel strike, reflected the government's position.

By the end of 1922, the wave of postwar strikes had ended with the labor unions substantially weaker numerically. Aside from the coal industry, the strikes in the rest of the 1920's tended to be small ones. The Supreme Court, in *American Steel Foundries v. Tri-City Central Trades Council*, limited the number of pickets during a strike and restricted them to those who were employed at the particular plant. This decision meant that workers could not support each other's efforts during labor disputes.

Even more important was the opinion in *Truax v. Corrigan*, in 1921, which struck



down an Arizona law that sought to limit the issuance of injunctions in labor disputes. The Court held that the plaintiff's business "is a property right . . . and free access for employees, owner, and customers to his place of business is incident to such right." It went on to say that, consequently, the placing of limits upon the power of state courts to enjoin union activities such as picketing, that have the effect of destroying the enterprise, was unconstitutional. This court decision made it more difficult for unions to carry on activities incidental to a strike.

The attempt by Kansas to limit the right to strike by defining a group of industries as public utilities and allowing a state commission to set wages and prices for their guidance was not successful. Although the right to prohibit strikes was never determined, the court found the regulation of wages improper. The law ceased to be operative after 1926.

On the whole, the state and federal governments tried to eliminate strikes by providing conciliation and mediation services on both a formal and informal basis. In many instances, the heads of municipal and state governments would intervene in a threatened labor dispute with the aim of bringing about a settlement. The United States Conciliation Service maintained offices throughout the country, and its staff of conciliators sought to lessen differences between parties and suggest formulae for peaceful settlement. Eminent outsiders occasionally offered their services in an effort to avert threatened strikes.

One of the more important steps towards avoiding strikes was made in the railroad industry in 1926 with the passage of the Railway Labor Act. This law allowed the Board of Mediation to intervene whenever differences threatened a shutdown of a carrier and in the event of failure to find a solution to recommend the appointment of an emergency board by the President of the United States. No changes in wages and working conditions could be made during the 30-day investigation. A report and recommendations which neither party was compelled to accept was submitted at the end of 30 days. This procedure, while cumbersome and dilatory, tended

to reduce the number of strikes undertaken.

The Norris-LaGuardia Act has had more effect than any other statute on the carrying out of strikes. Enacted in 1932, it restricted the power of the federal courts to issue injunctions in labor disputes. Any controversy between unions, workers and employers over conditions was by definition a labor dispute. Workers were permitted to strike and picket, and courts are explicitly forbidden to enjoin certain activities in support of strikes. As a condition for obtaining injunctive relief, the employer involved must have attempted to reach a settlement. Injunctions could only be granted if the employer had no remedy at law, and if the police were unable or unwilling to protect his property. The courts could enjoin only specific acts and could not issue blanket orders against unknown persons. Those charged with contempt for failing to obey a court order could request a change of venue and a jury trial.

Congress has since banned jurisdictional strikes in industries subject to National Labor Relations Board authority, and has by specific statute compelled the settlement of the railroad rules dispute by arbitration and not by strike. The Supreme Court has held that peaceful picketing during a strike is constitutionally protected so long as it does not become enmeshed in violence or its objectives are not against public policy or public law.

Although it has undergone modification over the years, and is still subject to government regulation and to the pressure of public opinion, labor's historical right to strike is certainly not questioned in the 1960's.

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*"Many union members view the union solely as a mechanism for securing economic improvements greater than they could obtain by their individual efforts," writes this specialist on economics, further pointing out that "... the real test of union strength is to be found not in overall membership figures but in the distribution of the membership on an industry-by-industry or a firm-by-firm basis ... [and] by the number of designations as bargaining representatives."*

## Unions and Their Members

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THE CENTRAL STRAND that runs throughout the course of American trade union history, linking the tiny organizations of the late eighteenth century with the giants of today, is business unionism.<sup>1</sup> Briefly defined, this is unionism which is job- or industry-oriented. Accepting the institutions of private property and profit-seeking, and therefore operating within the framework of the contemporary socio-economic system, it seeks to improve the economic lot of its members primarily through collective bargaining with employers.

From time to time, unions have seemed to abandon this focus in favor of political action, producers' cooperation, and uplift or reform movements of various kinds. On occasion, too, unions have appeared with a primary emphasis on other than business unionism. But the deviations from the main pattern have, without exception, proved temporary and ineffective. Sooner or later, the unions returned to their principal business of improving the wages, the hours, and the

overall working conditions of their members.<sup>2</sup>

Political activities, if engaged in, have been more or less directly related to these objectives—a wage and hour law or a social security act supplementing collective bargaining and a labor relations or anti-injunction law strengthening the unions' hands in collective bargaining. The occasional ventures into other activities, such as housing and banking, have been of distinctly secondary importance; and labor's intermittent concern with broad social, political and economic issues (foreign policy, for example) has generally appeared to be a casual extra-curricular activity. Even those unions which have been Communist-dominated have stressed traditional economic objectives, as have those which are corrupt and racket-ridden. The collective bargaining agreement—in a sense, the end result of union activity—manifests eloquently the nature and scope of union policies. Its provisions are almost exclusively related to wages (including fringe benefits) and to job or income security.<sup>3</sup>

Business unionism reflects faithfully the dominant attitudes and interests of its members. Of course, there are those who join unions for idealistic reasons, a desire to change the socio-economic-political system, the influence of friends or family, a wish to do the currently popular thing, pressure from fel-

<sup>1</sup> See, generally, R. F. Hoxie, *Trade Unionism in the United States* (New York: Appleton & Co., 1917).

<sup>2</sup> See P. Taft, *Organized Labor in American History* (New York: Harper & Row, 1964).

<sup>3</sup> See S. H. Slichter, J. J. Healy, and E. R. Livernash, *The Impact of Collective Bargaining on Management* (Washington: The Brookings Institution, 1960).

low-workers and union organizers, or the need to secure and retain employment.<sup>4</sup> However, the typical union member is principally concerned with what the union can do for him directly and, preferably, immediately.

This has sometimes been referred to disdainfully as a "belly philosophy," seeking only narrow materialistic objectives. However characterized, it seems fair to say that many union members view the union solely as a mechanism for securing economic improvements greater than they could obtain by their individual efforts. They undertake no ideological commitment to the union, they do not regard themselves as part of a broad social movement, and participate as little as possible in the affairs of the union. Presumably, they believe in honesty, administrative fairness, and the democratic process, but are not likely to stir from their apathy long enough to do something about it. They seem to be saying that the payment of dues entitles them to leave the government of the union to the officers who are being paid to do the work. Where such attitudes prevail, the test applied to the union and its leadership is simple enough—"has it delivered the goods?" In the circumstances, the leadership is under constant pressure to demonstrate the concrete economic gains won by the union *vis-a-vis* unorganized workers or those organized by other unions.

In a dynamic society, marked by rapidly changing technology and a vast continuing flow of new consumer goods and services, the pressure of living standards on income is unceasing. Through the proliferation of advertising media and the visible evidence around them, workers are constantly made aware of the goods and services they do not have, of the gap between their actual and their aspirational living standards. Hence, the felt need for increased income and the discontent with present levels. Unions do not make workers dissatisfied with their condition but act as a channel for the expression of dissatisfaction; satisfied workers are not good union prospects. Added to the size of the

wage, there is the matter of security. Faced with the threat of unemployment and income loss because of old age or sickness, the worker turns to the union hopefully, seeking some protection against economic insecurity. The twin objectives of greater income and greater security are real and urgent. The principal task of the union is to satisfy those objectives.

Since the economy itself is constantly in process of change, it is apparent that specific lasting definition cannot be given to such concepts as "a fair wage," "American living standards," or "economic security." Not only may price rises make it impossible to continue to buy the same market basket of goods and services, but the contents of the market basket are undergoing change. Yesterday's dwelling, if indeed it is not already a slum, does not satisfy today's housing standards. We require more and better medical care, more and better recreational facilities, more and better household amenities, than in the past. Yesterday's "fair wage" is not "fair" today because of altered living standards and it may be assumed that today's "fair" wage will shortly become "unfair." Much the same is true, of course, of "security," since it is inextricably interwoven with prices and living standards. Thus, union policies are directed towards the immediate ("more now"), rather than the ultimate, and are characterized by a refusal to define ultimates except in such vague terms as "living wages," "antipoverty," and "economic security."

"Pure-and-simple" unionism, with its emphasis upon immediate economic gain, appeared with the earliest American unions:

... With changes in the organization of industry, particularly the appearance of middlemen and greater separation of the workers from the marketing of their products ... employer and employee functions became more clearly differentiated. Conflicts of economic interest and the tendency toward debasement of wages and conditions led to combinations among the artisans for the purpose of preventing the group from being injured by the competitive underbidding of its own members.

... the factory system has both stimulated the development of labor organizations and influenced their character, aims, policies, and structural forms. With its impersonality and its sub-

<sup>4</sup> N. W. Chamberlain, *The Labor Sector* (New York: McGraw-Hill Book Co., 1965), pp. 83-85.

division of labor, it has deepened the rift between employers and workers, made more apparent the conflicts of interest between them, and rendered less certain the opportunity of skilled artisans to earn their livelihoods . . . in given occupations or trades.<sup>5</sup>

## A SLOW BEGINNING

Despite the undoubted appeal of unionism to many American workers, its growth during the nineteenth and the first part of the twentieth centuries was slow and hesitant.<sup>6</sup> Here and there, groups of skilled or strategically-placed workers (printers, coopers, shoemakers, carpenters and bakers) formed unions and sought economic concessions from their employers. These unions rarely lasted long, not having the strength to withstand employer hostility, depressions and the restrictive legal climate. At various times during the nineteenth century, labor groups espoused political action and a broad variety of humanitarian and reformist programs. It was not until the 1850's, with the formation of national unions in a number of the skilled trades, that unionism may be said to have acquired durability in the United States. And it was not until the organization of the American Federation of Labor in 1886 that there emerged a lasting national federation which provided the structure and philosophy necessary to the functioning of a movement predicated upon business unionism.

Even after the formation of the A.F.L., union membership continued to reflect changing business conditions and the market for labor. In periods of prosperity and war, union membership tended to rise; during depressions it tended to decline. (For union membership figures from 1870 to 1934 see page 331 of the June, 1965, issue of *Current History*.)<sup>7</sup>

Underlying the relatively slow growth were a number of factors. Many workers were difficult to organize because they believed they could do better without unions or be-

cause, like many women workers, they felt they were only temporarily in the labor force, or because they felt psychologically or socially superior to manual workers (white collar and professional personnel) or because they were relatively isolated and difficult for union organizers to reach. Doubtless the most significant deterrent was employer hostility, assisted by the legal climate.

The right of workers to form unions was not seriously challenged after 1842; however, the employer was free to utilize a formidable array of weapons to keep unions out of his plant. He was free to discharge suspected "agitators," to compel his employees to sign antiunion "yellow-dog" contracts, to employ labor spies to ferret out union sympathizers, to engage in lockouts and blacklists, to sponsor company-dominated unions. The Supreme Court invalidated both federal and state statutes opposing yellow-dog contracts, and both federal and state courts considerably expanded the scope of the labor injunction, thus often insulating a plant against union activity.

With the enactment of the Norris-La-Guardia Act of 1932 and, especially, the Wagner Act in 1935, the course of legal decision was abruptly reversed. The latter statute forbade employers to "interfere with, restrain or coerce" their employees in the exercise of their right to organize and bargain collectively, prohibited employer assistance to or domination of labor organizations, banned discrimination in order to encourage or discourage union activity, and outlawed refusals to bargain collectively.

Following the validation of the Wagner Act by the Supreme Court in 1937, and as part of the great surge of organizing activity attending the establishment of the Congress of Industrial Organizations (C.I.O.), unions made substantial inroads in many of the mass-production industries (steel, automobiles, electrical equipment, among others), which had for decades been virtually invulnerable to union attack. By 1939, the nation was entering the defense production period preceding World War II. During this period and, of course, in the war years that followed,

<sup>5</sup> H. A. Millis and R. E. Montgomery, *Organized Labor* (New York: McGraw-Hill, 1945), pp. 4-5.

<sup>6</sup> *Ibid.*, Chapters II-IV.

<sup>7</sup> Also see, L. Wolman, *Ebb and Flow in Trade Unionism* (New York: National Bureau of Economic Research, 1936), p. 16.

the demand for labor grew phenomenally. Unions participated actively in the various governmental programs which were set up (dealing with production, prices, manpower, wage controls and labor disputes) and gained enormously in power and prestige as well as in membership.

## AFTER WORLD WAR II

By the end of World War II—perhaps principally as a by-product of the years of experience in dealing with unions—American employers seemed to have come to the conclusion that unionism was a permanent part of the American scene. Between 1933 and 1945, union membership jumped from about 3 million to somewhat less than 15 million. In the subsequent decade, there was further growth to about 18 million in 1955. Since then, there has been some decline in total membership; it may be estimated that the present total is perhaps a million below the peak.

Overall membership figures do not tell us a great deal about the actual status of unions or their effectiveness. Writing in 1936, Leo Wolman remarked:

... Drawing on a working population less than that of this country, the English unions had, in 1920, 70 per cent more members than the American, and the English movement has been larger than ours for many years.

The American labor movement, however, has not consisted of numerous small and weak unions evenly distributed over the available fields of employment and of no great significance in any. Organized labor in this country has, on the contrary, been distinguished by striking differences in its position in the industries and employments commonly regarded as susceptible to unionization. The persistent juxtaposition of powerful and weak unions, the phenomenon of thoroughly organized trades and industries with adjacent occupations scarcely touched by organization, and striking geographical differences in the strength of membership have been outstanding features of the labor movement. The strong unions in this country compare favorably in membership and influence with the most powerful labor organizations in other countries. In the last forty years the majority of these have grown with the rise of employment, have been little affected by ordinary fluctuations in business

conditions, and have retreated substantially only in the face of prolonged and severe depression or of more or less permanent decline in employment.<sup>8</sup>

There are implications in the foregoing quotation which are crucial to an understanding of union membership and function. In 1936, the strongest unions were to be found in transportation, building, printing, coal mining and clothing. Since then, as observed above, unionism has made major gains in mass production industries like steel and automobiles. The fact remains, however, that the real test of union strength is to be found not in overall membership figures but in the distribution of the membership on an industry-by-industry or a firm-by-firm basis. By Section 9(a) of the Labor-Management Relations Act, the union which is designated by the *majority* of the employees in the appropriate bargaining unit is the exclusive bargaining representative of *all* the employees in the unit for purposes of collective bargaining. Unions no longer bargain for their members only, as they used to do. Today, if they have bargaining rights, they bargain for nonmembers as well as for members.

The real strength of unionism is to be measured, therefore, not so much by the number of members as by the number of designations as bargaining representatives. And while the latter is doubtless affected by the former, it is clear that in some instances the union will have an influence greater than its membership and that in others its influence will be less than suggested by its membership. The steelworkers' union may be cited as an example of the first; the textile workers' union as an example of the latter. Stated somewhat differently, the influence of unionism is to be measured not by the total membership within say, the A.F.L., but by the degree to which the individual affiliated union is able to win designations as majority representative within the trade area it regards as its appropriate jurisdiction.

There are, to be sure, some purposes for which overall membership is of great significance. For example, in political matters, the aggregate size of union membership may well

<sup>8</sup> *Ibid.*, pp. 84-85.



determine how persuasive a union lobby will be. It is likely, too, that individual employers will be influenced in their dealings with unions by general considerations of overall union strength. However, the real strength is measured by the degree to which a union is able to function in collective bargaining, which is quite independent of changes in aggregate union membership.

### THE IMPORTANCE OF COLLECTIVE BARGAINING

We have already observed that, for better or worse, American business unionism places almost complete emphasis upon collective bargaining for the achievement of its objectives. A number of vital consequences flow from this fact—chief among them is the need for organizing effectively within the factor or product markets. The employer's ability and willingness to accede to union demands are significantly limited by what his competitors are doing. For a union to succeed in collective bargaining, it must strive to take labor costs out of competition: that is, to establish approximate equivalence of unit labor costs among all employers in the same market. As long as there are significant numbers of workers within the area willing to work for less than the union scale, the union is not going to be able to enforce the scale.

If it is a union of, say, stationary engineers in Chicago, it must enroll substantially all of the stationary engineers in that labor market (as well as control the number of entrants to the trade) in order to prevent the undermining of the union scale. If it has such control of the supply of engineers, it does not really matter much if no other workers in Chicago are organized; the union is primarily concerned with the engineers and only remotely with other groups of workers. Conversely, a high degree of unionization generally will prove small comfort if, within the trade, there are many unorganized craftsmen. In the same fashion, a New York book printer employer cannot be indifferent to wage rates

paid by his competitor in Dubuque, Iowa, and the unions with which he deals are, therefore, vitally concerned with the labor costs of all those employers whose products enter into the same market.

Thus, the logic of union organization is dictated by the nature and size of the market. If it is to be successful, the union must achieve effective control over the labor supply within the *relevant* market. If the market for particular tradesmen is local, the union need not concern itself with the situation outside the locality. If, however, the market is national, the union cannot afford to ignore any substantial portion of it; if it is to influence the price of labor within the market, it must have the necessary control over the labor supply. But it must be kept constantly in mind that the union's concern is with a particular *kind* of labor (skill) or with the supply available to a particular employer—not with labor generally or with employers generally.

The needs of collective bargaining, then, determine the scope of organizing activity in which the union must engage. Assuming that the union has effective control of the labor supply in the markets which are relevant for it, it is under no compulsion to extend its organization to other trades and other industries. Indeed, if it sought to gather in other workers, it might find itself under attack by sister unions upon grounds of raiding their jurisdictions. This is not to say that an effectively organized union might not be glad to see unrelated workers organized, but only that such a union is not likely to feel that it has a roving commission to organize the unorganized who, in any event, would be assigned to other unions.

As long as a union confines itself to its historical jurisdiction, it is apt to be relatively indifferent to the extension of union organization in other areas. It may lend some organizers for such a purpose and make a financial contribution, but it would nonetheless tend to regard such activity as lying outside its main sphere of interest. The great burst of organizing activity attending the formation of the C.I.O. was quite exceptional, as to both motivation and achievement.<sup>9</sup> Barring a major

<sup>9</sup> W. Galenson, *The C.I.O. Challenge to the A.F.L.* (Cambridge: Harvard University Press, 1960).

reorientation of union philosophy in the United States, we are not likely to see a recurrence of such activity. Instead, organization will remain, as it has been, the major responsibility of each union within its trade or industrial jurisdiction with some overall organization being carried on by the A.F.L.-C.I.O.

Inevitably, there will be sharp contrasts among unions; some doubtless will continue their apathetic way, hoping only to retain what they already have. Others may be expected to continue, and even to accelerate, vigorous and resourceful organizing work. Each union will, so to say, continue to be in business for itself, emphasizing its own strategic situation and its own problems.

Within recent years, there has been much criticism of unions, from a rather novel source. To the traditional critics who view with alarm labor's growing power, or, as they see it, labor's monopoly position, there have been added the voices of many friends and allies of unions who speak of "the crisis in the labor movement." In some instances, the argument is made that unions have been excessively concerned with business union objectives and that the time has come for unions to broaden their horizons and adopt philosophies more closely geared to the general welfare. In others, the emphasis is placed upon the failure of unions to organize the hitherto unorganizable and, thus, to revive the growth in overall union membership.

One of the most articulate of the friendly critics has said:

A certain lassitude has overtaken the trade union movement itself. Little is left of the proselytizing spirit that created the basic organizations in the building and printing trades in the late nineteenth and early twentieth centuries, the needle trades organizations in the following two decades, and the industrial unions in the Thirties. . .

The new quiescent state of the American unions comes after a period of great growth. They amassed great numbers and influence. Their prestige was high. They significantly

conditioned the thought and conduct of leaders in many walks of life. . .

But many of the earlier impulses that favored union growth have run down. . . . Employment has contracted in many union areas, cutting the potential for union organization; and industries, areas, and occupations that the unions did not reach during the expansive period of the Thirties and early Forties remain relatively untouched.<sup>10</sup>

From the standpoint of the labor movement as a whole, there is much to be said for the proposition that new and massive organizing drives must be undertaken to check the decline of membership in organized sectors and bring into the fold the millions who have never joined. Further, from the standpoint of the liberal student of society, a reinvigorated labor movement is a *sine qua non* for a balanced democratic community. There is a serious question, however, as to whether American unions are willing and able to make the kind of readjustment in their outlook and policies which is envisaged by their critics.

Undoubtedly, the labor movement as a whole is in for some trying times. It is to be expected that there will be substantial declines in the customary sources of membership, as technological change transfers skill, thought and intelligence from the man to the machine. It is to be expected that increased proportions of the labor force will be found among the white-collar, professional and government employees who have been traditionally infertile soil for unionism. Perhaps the old ways of doing things will not suffice to meet these problems or the problems of Negro workers, low-wage service workers and other disadvantaged groups. Conceivably, the

(Continued on page 52)

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Emanuel Stein has been on the faculty of New York University since 1930. An authority on labor-management relations, he has served as a mediator or member of arbitration panels on local, state, and national levels and has written widely in the field. In 1962, Mr. Stein taught an educational television course on labor problems. In 1964, he won the Great Teacher Award of New York University's Alumni Federation.

<sup>10</sup> S. Barkin, *The Decline of the Labor Movement* (Santa Barbara: Center for the Study of Democratic Institutions, 1961), pp. 5-6.

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*As this labor economist sees it, "For the union, the extension of fringe benefits means time and opportunity, with a stabilized membership, to plan constructively in matters in which the employer and labor have a community of interest."*

## Fringe Benefits: Why, When and How

By MARK STARR

*Former Educational Director,  
International Ladies' Garment Workers' Union*

TIME HAS A WAY of altering the initial meaning of words. So it has been with "fringe benefits," a term born of the haggling in the marketplace over the price of laborpower during World War II; a semantic soaping of the slide to higher compensation; a way of complying with the letter of the law on wage restrictions while neatly evading its spirit. In most cases, during World War II, employers were making big profits and did not want production halted—a fact of which union negotiators were well aware. But now, 20 years later, "fringe" has lost its connotation of fancy trimmings and taken on another meaning, "supplementary," equally sanctioned by the dictionary.

Today there are few union agreements in which "the package" does not include pensions, severance pay, paid vacations and welfare provisions in wide variety. In some cases, a combination of these fringe benefits becomes almost as important in contract negotiations as the basic demands on wages and hours. The National Labor Relations Board for many years has recognized that the employer can be rightly required to bargain about fringe benefits.

In the early years of the factory system, any

combination of workers to ask for higher wages was considered a conspiracy in restraint of trade and against the public welfare. Unions, however, formed "friendly societies" in which members pooled their small payments for sick and death benefits; sometimes society meetings were used as a camouflage for conferences on what wages the workers should tacitly demand.

Later, the unions (notably the British "model unions" of the 1850's) used these friendly benefit societies systematically to ensure the permanence of their membership. The old-time radical unionists, including our own "Wobblies,"<sup>1</sup> denounced such unions as "coffin clubs"; they saw that such modest insurance funds, while giving stability to the union, fostered a conservative point of view that frowned on costly strikes and union militancy. Such organizations, the radical unionists saw, could never become agencies of the class struggle which they believed labor should wage.

Now fringe benefits involve billions of dollars of payments and accumulated reserves which, like the wealth of the Vatican, it is hard to evaluate precisely. In 1960, according to statistical reports on welfare and pension plans filed with the United States Department of Labor, total assets reached \$33.4 billion. The hundred largest plans, constituting 0.1 per cent of the total number,

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<sup>1</sup> The Industrial Workers of the World ("Wobblies" or I.W.W.) was founded in June, 1905, aiming at the union of all workers into one centralized organization.

had assets of \$17.8 billion as compared with \$15.6 billion held by the other 99.9 per cent.

A report<sup>2</sup> on welfare and pension plans filed with the Department between January, 1959, and July, 1963, showed 161,750 plans, of which 128,340 covered welfare benefits, 32,610 covered pension benefits, and 800 included both. No figures are given on the number of employees involved. Nor is the number of plans reported very reliable since "some administrators reported as one plan all benefits . . . whereas others reported each benefit as a separate plan." Almost half the plans covered workers in manufacturing. Wholesale and retail trade and "services" accounted for one-third. No information is given as to how many plans were the outcome of union-management negotiation. Employers put up the money for roughly one-third of the welfare plans and three-quarters of the pension plans. Employers and employees jointly financed half the welfare plans and one-fourth of the pension plans. Welfare benefits centered on life insurance and hospitalization. Of the 32,610 pension plans reported, 90 per cent were of the multiple-benefit type, providing various combinations of payments for retirement on account of age, length of service or disability, and for death.

### DECADES OF EXPANSION

This proliferation of welfare and pension plans started about 20 years ago when the modest experiments of some unions were greatly expanded and huge new welfare funds were established with employer contributions.

New York locals of the International Ladies' Garment Workers' Union (I.L.G.-W.U.), for example, which one judge called "as much a social work agency as a union," had opened a one-room health center in 1913, staffed by a part-time doctor. By 1949, the Union Health Center occupied six floors of an I.L.G.W.U.-owned skyscraper, and *The New York Times* praised it editorially as "a living testimonial to the contribution enlightened unionism is making to the welfare of our city." In 1964, President Lyndon B.

Johnson participated in the center's fiftieth birthday celebration. The occasion was marked by a medical symposium and a special medal was authorized by Congress.

In addition to the New York center, there are I.L.G.W.U. health centers in twelve of the larger cities; six mobile clinics also operate over wide areas. One of these mobile units, for example, serves members of garment workers' locals in Georgia, South Carolina and Florida. (This huge van, incidentally, accompanied the civil rights marchers from Selma to Montgomery, Alabama, in March, 1965.)

Welfare, health and pension funds in the garment industry are accumulated from contributions by employers, usually as a percentage of their payrolls. For example, employers under contract with the New York Dress Joint Board pay 7.5 per cent to health and welfare funds, 3.5 per cent to retirement funds, and .05 per cent to unemployment-severance pay funds.

The union's Health and Welfare Benefit Department's financial report for 1963's nation-wide operation includes details on:

*71 health and welfare funds.* There are 431,650 workers covered (income, \$57 million [including \$4 million investment income]; disbursements, \$47 million). Types of benefits include death, sickness, hospitalization, surgery, maternity, eye conservation and paid vacations.

*55 retirement funds:* There are 32,279 living retirees on the rolls. Since the program began, 44,559 workers have received benefits. These funds are being merged on a nation-wide basis to secure their efficient control and profitable investment.

*Supplementary unemployment and severance pay:* Benefits have been provided to 25,329 workers in the three years it has functioned.

The fact that most of these funds are paid by employers is the distinguishing mark of the modern fringe benefits as compared with the modest funds collected from union members in earlier times. Under some plans, workers also contribute to pension funds.

Closely related are the increasingly important social security funds operated by the government to which both employers and employees contribute on a percentage basis. The percentage contributed has gone up

<sup>2</sup> Welfare and Pension Statistics: Characteristics of 161,750 Plans Filed as of July 1, 1963.

steadily, with benefit payments and the number of participants increasing. However, such social security payments by themselves do not give adequate security. (The present minimum benefit is \$40 per month.) They must perforce be supplemented by savings and nongovernmental pensions. The new (1965) Medicare legislation makes provision for some hospitalization but catastrophic illness is still not covered.

Most outstanding in the late 1940's was the belated entry into this area of the United Mine Workers' Union (U.M.W.A.) Its Welfare and Retirement Fund reported that by the end of 1948 it had paid out \$68 million to 260,123 beneficiaries.

The Miners' Fund established ten area medical offices, each headed by a physician under the direction of the Fund's central medical staff. Paraplegics and other mine-injured cases were treated, some of whom had been helpless for 13 or 14 years. Hospitals were built to care for miners who lived in isolated coal camps in Virginia, West Virginia and Kentucky. Coal mining is still a dangerous occupation. (Even in 1963, 252 miners were killed and 9,795 injured.) Despite the dangers, with improved rehabilitation methods the hospitals became underutilized. Faced with the four-fold rise in hospital costs, the Fund has now sold its ten hospitals to the Appalachian Regional Hospitals, Inc., and will pay for care in them on a per diem basis.

Revenues for the U.M.W.A. Welfare and Retirement Fund came from a royalty payment on every ton of bituminous coal mined, which started at five cents, rose to 20 and later to 40. Disbursements were made without any waiting period to build up reserves, but this pay-as-you-go basis proved hazardous. Mechanization of the mines resulted in a big cut in the number of miners employed and this increased the need for retirement pensions. Then competition from other fuels reduced coal output so that royalty payments dropped. Pension payments, originally set at \$100 a month, had to be reduced. Reserves were later accumulated and between 1946 and 1964 the Fund took in \$2.1 billion

and disbursed a little less than \$2 billion.

The 1964 report of the Fund showed the following expenditures:

*Pensions:* \$58.6 million to 64,648 retirees who receive \$75 per month after age 60 and 20 years of mine work.

*Hospital and Medical Care:* \$52 million for 832,000 days of hospitalization, 748,000 visits by physicians and 1,435,000 office and out-patient clinic visits by miners and their dependents.

*Widows and Orphans Benefits:* \$3.6 million for funeral expenses (\$350) for 4,075 cases and aid to 10,150 survivors. Widows receive \$705 in the year following the wage earner's death.

*Mine Disaster Benefits:* Emergency payments of \$42,600 to families of 124 miners killed or severely injured.

Yearly reports of the operations of the Fund in what was once a jungle industry of uncompensated accidents, deaths and strikes are available from the Fund's headquarters (907 15th St., Washington 5, D.C.).

A potentially serious defect in the miners' situation is the fact that if a coal owner defaults on his royalty payments, then benefit payments to his employees and pensioners also cease. The union brings legal action against such owners. This points to one obvious weakness in the single-industry or single-plant approach to welfare and pension schemes. A declining industry with aging workers (which has most need of such benefits) may be least able to provide them, while a new, expanding industry with a relatively young labor force can afford to put extensive and increased fringe benefits into a settlement package. This point should be kept in mind when we later discuss the future of such funds and their "vesting."

The extent and variety of current fringe benefits are impressive. Impatient intellectuals, keeping up with fashion in ideas, have attempted premature interment for collective bargaining as obsolete, but fringe benefits to meet basic needs beyond wages and hours may give unions a continued and important, if somewhat changed, role in industrial relations and community life.

For example, when in 1963-1964 the United States Department of Labor's Bureau of Labor Statistics studied contracts for



1,000 or more workers, it found that over 1.9 million workers were guaranteed supplemental unemployment-severance benefits. What this means to the individual worker is best appreciated by those who knew the 'bad old days when labor was treated as a commodity to be bought as cheaply as possible by the hour or day and exploited even to the point of physical exhaustion and impaired health.

### HUMAN DIGNITY

Implied in the demand for fringe benefits is the worker's insistence on recognition as a human being. The United Automobile Workers in a paid advertisement in *The New York Times* (September 29, 1964) explaining its strike against certain General Motors plants used the slogan, "THE ISSUE: MORE DIGNITY, NOT MORE MONEY." Paid vacations, pensions and insurance have always been taken for granted for management executives and professional workers; why not for the men at the bench?

Article No. 30 of the labor agreement between the Family Laundries Association and Local 284 of the Laundry Workers, Cleaners and Dyers' Union in New Jersey reads: "A.—The employer shall contribute weekly to Local 284 Welfare Fund a sum equal to \$1.00 per week for each employee—who has actually performed work during such weekly payroll period, including vacation weeks for which salaries are paid." Elsewhere in the agreement, seven paid holidays are named and other clauses provide that the employer must furnish uniforms to all employees, with rubbers or boots where needed.

Newspapers have recently carried such items as these: The Auto Workers asked for wage advances, and for earlier retirement, stock-buying plans and a yearly salary for production workers. The Teamsters' nationwide agreement included dormitories and shower baths for long-distance drivers. The United Electrical Workers secured widows' pensions from the Radio Corporation of America. The Newspaper Guild in 1964 de-

cided to insert in all new contracts provisions for retraining members displaced by new devices and processes. The Longshoremen's 4-year agreement contains a guaranteed yearly income, longer vacations and widows' pensions. Local 3 of the Brotherhood of Electrical Workers in New York set up a trust fund based on a one per cent payroll tax to be used for education and earlier retirement.

No union can afford to be left behind in demands for fringe benefits. An agreement made in February, 1965, between the Allied Aviation Fuel Company and District 141, International Association of Machinists at Washington, D. C., includes a pension plan, four weeks of paid vacation after 15 years of service, extension of severance pay to a maximum of ten weeks instead of eight, and company-paid life insurance, as well as increased wages. The United Steelworkers will press this year for increased pensions from the present rate of \$2.50 per month for each year worked. A sliding scale of paid vacations with a 13-week maximum came into operation in 1964. (The United States Steel Corporation reported that employee benefits, aside from wages, cost \$249.5 million in 1964 as compared to \$221.2 million in 1963.)

Benefits small but important to the individual worker are those paid when the employer makes up loss of wages incurred by jury duty and when the worker's birthday becomes one of his recognized paid holidays along with halfdays before Christmas and New Year's Day.

But unions are givers as well as receivers in welfare benefits. With the virtue which must be its own reward and expect no publicity, the good works of the unions are manifold on the local as well as the national level. What the A.F.L.-C.I.O. Community Services Committee and its staff do is a remarkable story in itself. A recent incident in the record of applied practical brotherhood is the Guiding-Eye Dog Project of District 98 of the Machinists' Union, which has presented its third dog trained to aid the sightless.<sup>3</sup>

In another instance, the Waterbury, Connecticut, local of the Auto Workers took notice of the pathetic plight of elderly people

<sup>3</sup> The *Machinist*, March 11, 1965.

sitting in the public park where, to quote *The New York Times*, "They sat staring hour after hour, then trudged home feeling unneeded and unwanted."<sup>4</sup> The Auto local, with the cooperation of the Scovil Manufacturing Company and municipal agencies, set up a hobby and recreation center, and also a preparatory program for workers approaching retirement age under the title "Looking Forward to Retirement."

Several unions have invested huge sums from their reserves in large housing cooperatives. Last February, plans were made for the world's largest cooperative to accommodate 55,000 to 60,000 persons at an initial investment of \$450 per room plus a rental of \$22-\$23 per room. Erected with city and state cooperation in the Bronx, New York, this will be the eighth and largest such development in which the Amalgamated Clothing Workers (A.C.W.A.) has invested. Other unions financing similar projects include the Brotherhood of Electrical Workers, the Amalgamated Lithographers, the Typographers, the I.L.G.W.U., and the Butcher Workmen. The A.C.W.A. has also invested \$15.8 million in the United States Department of Agriculture's farm and rural community program. "This brought the total up to \$74.3 million which the A.C.W.A., the Amalgamated Bank of New York, the Amalgamated Trust and Savings Bank of Chicago and affiliated institutions have invested in the program."<sup>5</sup>

In the not too distant past, physical check-ups were sometimes used to victimize active union workers. But nowadays unions join with other agencies in campaigns for x-ray examinations for tuberculosis, blood donations, and projects for preventive medical care. *Advance* reports that the New York Amalgamated Laundry Workers have set up exhibits to inform its 19,000 members about the birth control advice and devices available at the union health center.<sup>6</sup>

Union aid is given to such new and widespread projects as preparing for the effects of

automation, consumer and legal aid, the rehabilitation of physically, emotionally and mentally disturbed workers, and, most recently, the very important struggle for civil rights and equal job opportunities for all workers. A number of local unions as well as the A.F.L.-C.I.O. Executive Council have tried to prevent the improper use of lie detectors as an encroachment on personal integrity.

Support of the civil rights agitation has been demonstrated by the large number of official union representatives who participated in the historic Selma-to-Montgomery march this spring. The A.F.L.-C.I.O. recently made a grant of \$25,000 to help the veteran elder statesman of the Negro movement, union leader A. Philip Randolph, in setting up an educational institute which, among other activities, will give special training to Negro workers to implement their rights as citizens and workers. Union aid also goes to established agencies such as the Red Cross and the Community Chest.

An important internal fringe benefit provided by several unions, usually for their own members or their children, is the increasing number of college scholarships which are awarded on merit and which in many cases provide for a four-year course.

#### **MOBILITY AND "VESTED" FUNDS**

All private pension plan benefits were once contingent on continuous employment by one company until retirement age. The trend for the past 15 years, however, has been toward the "vesting" of a worker's pension rights so that even if he leaves the company after a given period he will be entitled to benefits from it when he reaches retirement age. Under vesting provisions he can build up additional benefits on another job or jobs. This arrangement satisfies the employer's desire for a stable labor force—a desire that motivated pension plans in the first place—yet the workers' desire for mobility is not too severely limited.

Further mobility is provided under federal Social Security. Because the worker retains his identification number, and can move to

<sup>4</sup> *The New York Times*, March 22, 1965.

<sup>5</sup> *Advance*, February 15, 1965.

<sup>6</sup> *Ibid.*, March 15, 1965.

any industry or location in the country, his record of payments is kept, and this determines the retirement benefits he receives.

A Department of Labor Bulletin, "Labor Mobility and Private Pension Plans," analyzes 15,818 plans, involving 15,621,000 workers, which provided retirement benefits in 1960.<sup>7</sup> About two-thirds of these, covering three-fifths of the workers, provided for vesting. Details of the plans vary greatly, but here is a representative case:

Suppose Joe Doakes, when he reaches the age of 40, has worked at least ten years for the same company. He now has a vested right to a pension when he retires at age 65. If he is earning \$4,800 a year, this will amount to about \$34 a month. (The average benefit for the same age-income bracket with a 15-year minimum service requirement would be \$46 per month.) The longer he works for the same company the larger his pension will be, but if he leaves or is discharged he may qualify for benefits on another job.

Portable pension credits are an alternative to vesting in industries like food, clothing, construction, mining, water and motor transportation, where job changes are frequent. Under multiemployer contracts with a union, the employers contribute to a pooled central fund or have reciprocal arrangements. In the garment trades some unions (the I.L.G.-W. U. for instance) collect and administer the funds.<sup>8</sup> However, in most pension plans the employer is the administrator—this includes four out of five plans covering three out of five workers in the 1960 study cited. Joint boards are established in many multiemployer plans. Plans covering two out of three workers have been the subject of collective bargaining.

<sup>7</sup> *Department of Labor Bulletin*, No. 1407, June, 1964.

<sup>8</sup> The union is the most constant factor in the garment industry, which is characterized by many small workshops, seasonal employment, and a high turnover in shops and workers as fashions fluctuate. In 1963, the resources of the I.L.G.W.U. welfare, retirement and severance funds totaled \$366 million. Monies were invested in government securities, corporate bonds, Veterans' Administration and Federal Housing Administration mortgages and cooperative housing. Receipts were \$102.7 million (including \$12.7 million investment income); disbursements were \$72.6 million.

The complicated and differing amounts and conditions of retirement and the trend toward earlier retirement are well summarized in the A.F.L.-C.I.O.'s *American Federationist* for March, 1965. This points out that pensions are low and that even a modest pension of \$65 a month may require 20 years of continuous employment. "Today few pension plans pay much more than \$100 per month at age 65, over and above social security benefits." Retirement before the specified age with a reduction in payments is possible in most plans. There has been a marked increase in workers electing earlier retirement under reduced Social Security benefits (from 30 per cent in 1961 to 48 per cent in 1963), but no information on how much of this was at the employer's insistence is available.

The pensioner on his small fixed income is painfully vulnerable to the continued increase in the cost of living; the possibility of runaway inflation is one of his secret fears. Rules vary greatly as to what a retired person may earn without loss or reduction in pension income. In industries seeking to retire redundant workers the pensioner, understandably, is not allowed to reenter the industry. In one union-staff pension plan, if earnings plus pension exceed the preretirement salary, the pension is correspondingly reduced.

The support given by the A.F.L.-C.I.O. to the Medicare plan which President Johnson pushed through Congress in the spring of 1965 indicates that the private plans we have cited are believed to supplement and not to supplant federal and state social security. The Old Age and Survivor benefits set by the federal government are very much greater than anything labor can secure for a movement of only 15 million members. Such general coverage avoids the risk of a loss or reduction of benefits in a declining industry as in the case of the Mine Workers. If social security payments are kept in line with the cost of living, pressure on the unions to demand increased benefits from industry will lessen. If government payments were to fall, pressure would increase.

Some economics professors claim that fringe benefits only strengthen the unions' monopoly

power created by industry-wide bargaining. Others join with enlightened employers in recognizing that fringe benefits are likely to increase; and that pension plans create incentives for a stable labor force in the lower as well as the upper echelons of industry. (The pensions now given to top executives in addition to bonuses and stock-purchase options make even the best union benefits look very tiny. Bonuses to auto executives were greater than the total wage increases provided by the 1961 union agreement, according to Walter P. Reuther.)

The healthy worker, freed from anxiety, is likely to be more productive. Losses arising from labor turnover, from absenteeism due to ill health, and from poor workmanship and lack of alertness are apt to go down.

For the union, the extension of fringe benefits means time and opportunity, with a stabilized membership, to plan constructively in matters in which the employer and labor have a community of interest. *Business* unionism with a narrow concern for a privileged group of workers, and even more the old militant *radical* unionism, can be replaced by *social* unionism in which welfare benefits are gained by political action and are shared by all workers, union and nonunion alike. The demands for security, accentuated by automation, will grow and take on new and varied forms.

What are the effects of fringe benefits on costs of production? When the American Federation of Musicians insisted that a royalty be paid on all recordings and that the sum thus accumulated be used to employ their members in free concerts in parks and public institutions, an attempt was made to pass the cost on to the consumer. But look at the expanding state of the record market now. The price of coal did go up when the Miners' Fund royalty was imposed on coal tonnage. When, most recently, the Teamsters were seeking fringe benefit increases, estimated to be worth 40 cents per hour in the first year, they estimated that the employers would need a seven per cent increase in rates to absorb the cost. The manufacturer cannot always pass the costs on to the consumer, although

he will try. However it should not be forgotten that the alternative cost of millions of man-days lost through lack of incentive, through sickness, accident, absenteeism and strikes eventually falls upon the community.

The government, through its Health, Education and Welfare Department, claims to have disbursed in 1964 some \$19 billion in housing, unemployment compensation, health and welfare benefits. Yet the economic system, except for hard-core unemployment, seems to be in pretty good shape. The sum mentioned above is only about one-third of what we annually spend to conquer space travel and put a man on the moon. There is little doubt that industry can afford to pay fringe benefits and remain prosperous, although it undoubtedly does make it more difficult for a new firm with small resources to enter the market.

If we adopt the criterion that healthy, happy human beings should be an end product of industry, then medical care from the prenatal clinic to the crematorium with decent retirement pensions and adequate welfare benefits to remove the fear of poverty and disease will be increasingly important. Such security is basic to the productive and creative use of leisure. Fringe benefits are one way to transfer the enormous increases in industrial productivity into improved standards of life for many more of our citizens.

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**Mark Starr** has been active in workers' education for more than 50 years, first in Britain until 1928 and then in the United States. Educational Director for the International Ladies' Garment Workers' Union, 1935-1960, he was on assignments for the I.L.O.-Workers Education Division in Singapore and East Africa in 1960-1963. Jointly with Harold U. Faulkner, in 1944 he wrote the first fourth-year high school textbook on the labor movement. He has written many other books and articles. In addition, Mr. Starr has served on numerous government committees and is honorary president of Local 189, American Federation of Teachers, and honorary chairman of the Queens (New York) Liberal Party.

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*In a careful analysis of small business in the United States today, this economist emphasizes its growing importance to the American economy. He points out that, "As blue collar workers are displaced in our rapidly automating industries, they will turn to the service industries, or to the manufacturing industries generally characterized as small business, for further employment opportunities."*

# Small Business: Its Prospects and Problems

By EDWARD B. SHILS

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University of Pennsylvania*

SMALL BUSINESS is an important American institution. Although it is difficult for economic researchers to agree on exactly what small business is, since various government agencies as well as a number of research groups all use different criteria in defining it, this article proposes to show its importance to the American economy, and to reveal its problems and struggles for survival in a very competitive environment. First of all, large American corporations dominate the business scene, and their huge economic scale threatens the survival of the small firm. In addition, the small businessman finds his life made more difficult by the power of organized labor, by the impact of government requirements, rules and regulations, and by his inability to secure the type of financing necessary to provide stability. Nonetheless, if there were no small business in the United States, there would be a terrible hole in our economy and problems of unemployment—which now seem to be serious as a result of the fuller mechanization and automation of big business—would grow more acute.

What impact does small business have on

<sup>1</sup> The S.B.A. is a permanent independent agency established by Congress and the President to serve small businesses. Its services are authorized by the Small Business Act and by the Small Business Investment Act.

<sup>2</sup> See release of the Small Business Administration, "SBA: What it is—What it does?" (Washington: U.S. Government Printing Office, 1964), 0-741-600.

the United States economy? According to recent studies made by the Small Business Administration (S.B.A.) of the United States government,<sup>1</sup> there are 4 million small businesses in the United States representing more than 95 per cent of all our business and accounting for 40 per cent of all United States business activity and providing employment for 30 million workers.<sup>2</sup>

Seventy-seven per cent of the wholesale establishments in the United States are considered to be small business and account for about 40 per cent of the total employment. Ninety-one per cent of the retail establishments are considered to be small business and account for 56 per cent of the employment. Ninety per cent of the hotels are small firms, but account for 30 per cent of the personnel; ninety-three per cent of the construction companies are considered small business and account for 50 per cent of the employees in that industry. Finally, 90 per cent of the places of amusement in the United States are considered small business and account for 56 per cent of the total employment.

The data in Table I derived from United States census materials offers further insight into the importance of small business in the United States and its stabilizing force on the economy.

This serves to confirm the somewhat later S.B.A. estimates. Here we find small business at 93 per cent of total establishments



**TABLE I: NUMBER OF ESTABLISHMENTS, EMPLOYMENT AND VALUE OF OUTPUT PROVIDED BY U.S. SMALL BUSINESS (AS A PERCENTAGE OF U.S. TOTAL)<sup>3</sup> FOR INDUSTRY AND TRADE**

<i>Industry and Trade</i>	<i>Small Business Establishments as a Percentage of U.S. Total</i>	<i>Employment Percentage</i>	<i>Value of Output Percentage</i>
Manufacturing	91.6	29.9	30.6
Wholesaling	77.2	39.0	21.1
Retailing	91.2	56.1	42.4
Service Establishments	98.7	73.8	65.5
Hotels	90.1	30.7	26.5
Construction	93.1	47.0	34.2
Place of Amusement	89.8	56.6	33.4
Total	92.5	44.8	34.1

with 45 per cent of the total employment, providing more than one-third of the value of the output.

If protection to small business were withdrawn by the Federal Trade Commission and the Department of Justice in their enforcement of the Sherman, Clayton and Robinson and Patman Acts, among others—the economy of the nation would truly be threatened.<sup>4</sup> Also, if labor or tax laws become too onerous or if the powerful institution of unionism overwhelms the easily whip-sawed small businessman—then 45 per cent of the nation's nongovernmental, nonmilitary and non-agricultural employment could well be threatened.

It will be observed that about 10 per cent of the manufacturing firms employ 70 per

cent of the wage earners in manufacturing. Nevertheless, these giants find small business collectively providing one-third of the employment and one-third of the total output, in terms of dollars. The continual growth of the manufacturing corporations of the United States could not absorb the workers now employed by small businesses. Furthermore, the labor intensity<sup>5</sup> rate in small business is very high as compared to big business which has much more dollar investment in machinery and equipment than small business. Therefore, for the dollar investment in small business, the employment effect on the nation is most beneficial.

#### DEFINITION OF SMALL BUSINESS

What or who is small business? Various government agencies have different criteria for determining small business. The Small Business Administration of the United States generally qualifies business as small, for S.B.A. loan purposes, if it meets the following yardstick: wholesale—annual sales of not more than \$5 million; retail, annual sales or receipts from sales of not more than \$1 million. Manufacturing is considered "small" if it has no more than 250 employees, "large" if it has more than 1,000. There is some latitude expressed by S.B.A. for certain categories. For example, in the food industry, a retail grocery or meat retailer could have sales of up to \$2 million yearly and still qualify because the firm would still be "small" with respect to the major food chains.

On the other hand, the National Labor

<sup>3</sup> From *The Economic Almanac, 1953-1954*, published for the National Industrial Conference Board (New York: Thomas Y. Crowell Co., 1954), p. 362 (1939 Business Census). Data in this form has not since been available; however, reference is made to the U.S. Department of Commerce, Bureau of Census, County Business Patterns for the entire United States for the first quarter of 1962, (available in U.S. Department of Field Offices). Data shows that out of a total of 289,742 manufacturing establishments, only 5,006 have more than 500 employees. Furthermore, 28,847 establishments have more than 100 employees, hence 90 per cent of all manufacturing establishments in the United States have 100 employees or less. Other census data serves to corroborate the above table.

<sup>4</sup> "One hundred thirty of the largest manufacturing corporations account for half the manufacturing output in the United States. The 500 largest business corporations in the U.S. embrace nearly 2/3 of all non-agricultural, economic activity," from *The Corporation in Modern Society* (Cambridge: Harvard University Press, 1961), p. 5.

<sup>5</sup> Relative man-hours of direct labor required in different industries to attain a given amount of value added.

Relations Board often will refuse to take jurisdiction over a labor-management dispute in a firm—clearly in interstate commerce—because of the small size of the firm. Since the Taft-Hartley amendments in the Landrum-Griffin Act of 1959, state courts and labor boards are now free to take over cases where the N.L.R.B. declined jurisdiction. This, however, has not entirely cleared up the matter of the “no man’s land” for small business created in 1957 by the Supreme Court in the *Guss* case.<sup>6</sup> The Act caused the removal of about two million small businesses from the jurisdiction of the N.L.R.B. but there has been little uniformity or interest evidenced by state courts or boards on the taking of jurisdiction over these small employers. The net result is a failure to provide for small inter-state businesses the uniform and equal protection of the federal law. The 1959 Garmon opinion on federal pre-emption also limits state action on small firms still in the area of potential federal regulation.<sup>7</sup>

With respect to the application of the Fair Labor Standards Act, regional Wage and Hour investigators make administrative determinations as to whether or not a small business meets the criteria for being included under the act. The criteria includes such items as: business volume, the number of employees producing or receiving goods that cross state lines, and so forth. Appeals from these findings can be made only to federal courts, since there are no review boards. Thus, there are great possibilities for inconsistent treatment of small businesses by investigators in different parts of the United States. For many retailers and service establishments, there is a “no man’s land” under the F.L.S.A.

## EMPLOYMENT AND SMALL BUSINESS

The 1964 total civilian labor force amounted

to 74.742 million persons, including all persons 14 years of age and over employed in both agriculture and nonagriculture activities or unemployed and actively seeking work. Agricultural employment dropped to a new low in 1964 of 5 million or just one-half of what it was in 1933. Nonagricultural employment, which includes manufacturing, service industries, retail, wholesale and government, is 66 million or about two and one-half times what it was in 1933. Unemployment in 1964 amounted to about 3 million or 5.1 per cent of the total civilian labor force.<sup>8</sup>

Although big business in the United States is primarily corporate in form, highly mechanized or automated and heavily concentrated in manufacturing or public utilities, small business depends more on direct labor, has less capital investment and involves many single enterprises, partnerships and smaller corporations. Most of these small firms are in the lighter manufacturing industries such as garment manufacturing, textiles, electrical supply, service industries and wholesale and retail activities.

Recent shifts in the labor force emphasize the importance of small business establishments in the fight to keep our unemployment rate from increasing. First, there has been a steady migration of farm workers to cities as farms have become larger and have become mechanized. Farm workers are generally unsophisticated industrially and have their best employment opportunities in the small manufacturing companies or in wholesale, retail or service trades. Small manufacturing companies generally can use unskilled labor since they do not have a high capital investment in complex machinery. In small manufacturing companies, workers usually handle quite simple machinery and the training can be mastered in 30 to 90 days.

There has been a dynamic change in the number of young workers under 25 in the labor force as a result of the baby boom during and after World War II. A substantial amount of the annual increment of youth in the labor force results from dropouts or from recent high school graduates, who generally

<sup>6</sup> See Section 701 of the Landrum-Griffin Act and *Guss vs. Utah Labor Relations Board*, 353 U.S.1 (1957).

<sup>7</sup> *San Diego Building Trades Council vs. Garmon*, 358, U.S. 801 (1959).

<sup>8</sup> Economic Report of the President, Jan., 1964 (Washington: U.S. Government Printing Office, 1964), Table C-19, p. 230.

possess little in the nature of occupational skills or technical education. During the past decade, 400 thousand young persons entered the labor force each year. In the next ten years, the annual increment is expected to increase to 600 thousand per year. Young persons without skills have been more fortunate in securing work in the so-called "marginal" small business establishments where hiring criteria and standards are less professionalized.

If small companies do not hire these young people, the unemployment rate will increase. The United States Labor Department estimates that 30 per cent of the young people seeking work during the 1960's will be high school dropouts.<sup>9</sup> Currently, about 17 per cent of workers ages 16 to 19 are unemployed, which is about three times the average rate for the total labor force.<sup>10</sup> Small business also plays a huge role in the employment of women, who now constitute 33 per cent of the total employees in the United States. When women are employed in small manufacturing establishments, it is generally in those industries (apparel, etc.) where the labor intensity rate compared with the value of production is high and where the companies employ a more manualized approach to production or services, than is characteristic of the large-scale employer.

Further, small business provides a great source of employment to the unskilled workers, both men and women, who are attracted to industrialized and urban centers such as Philadelphia, New York, Chicago, Baltimore, from the South. Many of these in-migrants come from a fairly low socio-economic situation where they have been denied education and training to prepare them for the current

demands of the larger manufacturing corporations requiring special skills and literacy. On the other hand, there are thousands of small businesses in New York or Philadelphia which can take these marginal workers and in short periods of time can convert them into bundle boys, pressers, knitter helpers, order pickers, shipping department help, platform workers, and other similar workers.

The number of part-time workers in the American economy has increased by more than 4 million in the last decade and it is estimated that by 1975 that there will be an increase of another 3 million.<sup>11</sup> Since 1949, full-time employment rose only 20 per cent while part-time employment rose over 60 per cent.<sup>12</sup> Much of this part-time employment is provided by small business which is much more flexible in its employment requirements than big business. For example, grocery stores, laundries, hotels, restaurants, tailor shops, garment factories, wholesale operations—all provide part-time work, particularly during peak seasons of production or commercial activity.

The major manufacturing corporations have continued their pressure in the direction of reduced unit costs by investing tremendous sums in fully mechanized or automated equipment. This is a countermeasure to steadily rising personnel costs resulting from the pressures of ever-increasing union demands. These large corporations are successfully holding or reducing unit costs, making themselves more competitive in terms of world competition by reducing their dependency on direct labor as far as is possible. As a result, there has been a steady decline in the relative importance which production workers play in the total employment picture. In the middle 1940's, more than one-half of our civilian workers were employed in production. In the 1960's, we now find 60 per cent of employment in the service industries. The service industries, of course, include transportation, trade, finance, insurance, real estate, and a whole variety of miscellaneous service organizations as well as, of course, government employment. As blue collar workers are displaced in our rapidly automating in-

<sup>9</sup> U.S. Department of Labor, "Manpower Report of the President" (Washington: U.S. Government Printing Office, 1963), page 90.

<sup>10</sup> U.S. Department of Labor, "Manpower Report of the President," (Washington: U.S. Government Printing Office, March, 1964), page 8.

<sup>11</sup> U.S. Department of Labor, "Population and Labor Force Projection for U.S., 1960-75" (Washington: U.S. Government Printing Office, 1959, p. 2.

<sup>12</sup> U.S. Department of Labor, "Manpower Report of the President," (Washington: U.S. Government Printing Office, 1963), p. 50.

**TABLE II: LABOR INTENSITY IN U. S. INDUSTRIES<sup>13</sup>**

<i>Rank</i>	<i>Dollars of Value Added Per Man-Hr.</i>	<i>Man Hrs. Needed For Each \$1,000 of Value Added</i>
1. Chemicals and Allied Products	15.85	63.1
2. Petroleum and Coal Products	14.58	68.6
3. Tobacco Products	11.82	84.6
4. Instruments and Related Products	8.87	112.7
5. Food and Kindred Products	8.74	114.4
6. Printing and Publishing	8.69	115.1
7. Transportation Equipment	7.80	128.2
8. Primary Metal Industries	7.48	133.7
9. Electrical Machinery	7.29	137.2
10. Nonelectric Machinery	7.28	137.4
11. Paper and Allied Products	6.92	144.6
12. Stone, Clay and Glass Products	6.81	146.8
13. Rubber and Plastic Products	6.77	147.7
14. Miscellaneous Manufacturing	6.39	154.5
15. Fabricated Metal Products	6.31	158.5
16. Furniture and Fixtures	4.34	230.4
17. Textile Mill Products	3.63	276.5
18. Leather and Leather Products	3.59	278.6
19. Lumber and Wood Products	3.58	279.3
20. Apparel and Related Products	3.54	282.5

dustries, they will turn to the service industries, or to the manufacturing industries generally characterized as small business, for further employment opportunities.

### LABOR INTENSITY

Industries characterized as small business in America generally have the highest rate of labor intensity. What is meant by labor intensity? Generally, we mean the number of man-hours required for each thousand dollars of value added. Table II presents this picture vividly. It shows, for example, that the apparel industry needs to employ 282.5 man-hours of workers to turn out a thousand dollars of value added. The same is almost true of textile mills, leather producers, furniture makers and the lumber and

wool products industries, all of which have a high labor intensity.

On the other hand, those industries which have very high capital investment per worker, such as the chemical and petroleum industries, need to employ only about 65 man-hours in order to turn out a thousand dollars value added. Large-scale business is not providing the same relative employment opportunities as those activities characterized by small business. This requires an entirely new look at the importance of small business firms in our large urban centers, who collectively are a much more important employment factor than many of our better known national corporations.

Herrymon Maurer has selected 50 major United States corporations for analysis as to their growth and operations.<sup>14</sup> When one reviews their assets (\$82 billion), annual income, annual earnings and number of employees (4 million), one realizes the tremendous competition which small business faces. This is not to say that large business is not

<sup>13</sup> Source: Data derived from 1961 Census of Manufacturers U.S. Department of Commerce—which provided value added and man hours, and the Research Division of Lionel D. Edie & Co., Inc.

<sup>14</sup> See Herrymon Maurer, *Great Enterprise* (New York: Macmillan, 1955), especially page 19.

performing a very valuable function. However our economy has been founded upon the accommodation of large business with small business and a careful balance is the secret of United States industrial success.

### UNEQUAL IMPACT

Since 1938, the federal minimum wage law (Fair Labor Standards Act) has been amended three times, in 1949, 1956 and 1961. The original act provided for a minimum wage of not less than 25¢ per hour, 30¢ per hour for 1939 and 40¢ per hour for 1945. In 1949, the requirement was raised to 75¢ per hour and to \$1.00 per hour in 1956. The 1961 amendments provided an hourly rate of \$1.15 with the proviso that this was to move to \$1.25 by 1963. There were some exceptions to this general progression, but in the main, that was the way it worked out. The law also provided in 1938 that overtime was to be paid at a rate of time and one-half for those working over 44 hours in one week. In the latter part of 1939, this was effectively reduced to 42 hours and by late 1940 to 40 hours. Time and one-half under the federal law today is based upon excess time over 40 hours.

The original 1938 law excluded numerous workers such as those in agriculture, retail trade and services, fishing and seamen. Since 1938, many of the original exemptions from either the overtime or the minimum wage provisions have been eliminated and the 1961 amendments have brought an additional 4 million employees under the act. Small business manufacturing firms are definitely governed by the act, either as a result of substantial interstate purchases of raw materials or the sale of most of their finished products interstate. Many retail businesses are also governed by the Fair Labor Standards Act because a high percentage of their purchases move in interstate commerce. A grey area does exist for some small firms who are not certain as to whether or not they are governed by federal minimum wage laws or state minimum wage laws.

Small firms have had to adjust to the changes in minimum wages in a more sensi-

tive way than large corporations. Why?

1. The production requirement of large corporations is not so dependent on direct labor—because of the financial ability of the firm to provide mechanization.

2. Small business has relatively more workers at the marginal ability level. When minimums rise, marginal workers in “big business” risk losing their jobs since production skills and abilities cannot keep up with company engineering standards. Jobs of marginal workers are often thus eliminated by developing new machines. Small business has neither the industrial engineers to challenge the union’s demands, nor the capital to buy labor-saving devices.

3. Big business has the advantage of personnel staffs who screen, select, test and evaluate the basic aptitudes of workers. They can then successfully match workers and jobs—eliminating those applicants whose scores on the general aptitude test battery would place them at the low point of the bell-shaped curve of continuous progression of abilities (the normal distribution curve). In these large corporations, employees are hired on a basis of job descriptions and worker requirements, and with proper training are readily able to meet the engineering standards of quality and productivity.

The reverse is true of small business where the absence of a personnel specialist is more often the rule than the exception. The small firm hires many persons at the lowest ability level at the “gate.” These “warm” bodies are retained and more often than not “make-up” pay is provided to meet federal or union minimums. However, when federal and union minima continue their upward trend, a point is reached where even small business must ask the marginal worker to leave. In these cases, however, the strong unions and the weak employers are not always equally matched—thus inefficient workers often have to be retained after the unions protest the discharges.

4. Generally, state laws, which govern intra-state businesses, including a large number of small establishments, are now modeling their state hourly wage minima on the



federal standards, so that even where small firms are not subject to the federal law, they nevertheless are not free of its indirect impact.

5. The continuous change in federal minima has caused unions to consider these minima as a federal "floor" upon which unions build their own basic wage requirements. For example, small garment manufacturers in the North, who visualized the recent increase in the minimum to \$1.25 per hour as affecting the median wage in the nonunion South—found competitive relief only temporary, since the unions then raised their minima to \$1.40, causing an additional impact on the job security of Northern marginal workers employed in small firms. Most garment contracts now provide the following:

"Whenever the federal minimum hourly rate is to be increased, the union minimum will automatically be 15¢ higher than the new federal minimum."

Thus, when the new federal minimum reaches \$1.50, the I.L.G.W.U. minimum in the Knit Goods Industry in Philadelphia will automatically become \$1.65. This can happen during any point in the contract and the union does not have to wait until the expiration of the agreement.

6. The cumulative impact of minimum wage increases is unequal as between small and large companies. In small companies a percentage increase in the minimum may trigger off approximately equal percentage increases among more highly skilled employees. In large companies, where a competent wage administration or industrial relations staff is present, this roll-back tendency can be partially curbed—and is!

### THE IMPACT OF LANDRUM-GRIFFIN

The Landrum-Griffin Act was a piece of hastily drawn legislation resulting in part from the emotionalism current in Congress at the time.<sup>15</sup> Although the purpose of part of the Act was to penalize such powerful

unions as the Teamsters, the Act, with its "labor bill of rights," put a great deal of adverse pressure on the reasonable labor leaders.

Since the Act was passed in 1959, there has been a notable increase in the number of situations where labor leaders, who normally met the small employer halfway in responsible contract administration, now refuse to expose themselves to the possible revenge of a single dissenting union member. Such members may now turn their gripes over to a federal attorney specifically charged with listening to dissident union members who believe that their union leaders are "misrepresentative."

For many years, those industries characterized as small business such as the garment industry have had mature labor relations with union management. Labor leaders in these unions have realized that most small employers in the United States are in industries where mark-ups are lean, profits are low and demand is very elastic. Hence, in most of these industries, upward price changes have not kept pace with the rises in the durable industries, since World War II. The garment industry is a case in point.

Union leaders generally have assumed a posture of "statesmanship" in many industries where there are a large number of small firms. They have been content on the whole with a lower average hourly wage than in the durable goods industries (steel, automobiles); and their patience has been rewarded by a huge collective employment total in weaker industries where small firms predominate. Furthermore, small firms employ a high proportion of workers from the lowest socioeconomic levels, who would be unemployed or on public assistance if it were not for the survival of these establishments.

Since the passage of the Landrum-Griffin Act, however, more and more grievances have been pushed to higher levels of review or to arbitration. Increasingly, labor leaders in industries where there are many small employers now compete with the "big boys," who have the power to negotiate large hourly increases in industries which generally have

<sup>15</sup> See Edward B. Shils, "Impact of Landrum-Griffin on the Small Employer," *Annals of the American Academy of Political and Social Science*, Vol. 333, Jan., 1961, p. 141-52.

a low labor intensity rate. A petroleum company can afford to pay more for unskilled labor than a small businessman can afford to pay a sewing machine operator or a presser. Large-scale business operates with extensive capital equipment, while small-scale business links direct labor to simpler machines.

Furthermore, those provisions of the Landrum-Griffin Act of 1959 which amended the Taft-Hartley Act succeeded in making it still more difficult to organize the nonunion firm. Large employers, who have a great part of their plant equipment and production capacity in 100 per cent union areas, can often take advantage of these new protections by building plants in the nonunion South or in states where "right-to-work-laws" are permitted under the Taft-Hartley Act. Small business, on the other hand, is too weak and financially impoverished to move to those areas of the United States where the Taft-Hartley and the Landrum-Griffin acts prevent intensive union activity. Hence, a small business, whether a manufacturer, service, retail or wholesale establishment, residing in heavily unionized and urbanized areas of the North, Midwest and Far West, is a "captive" and the labor laws of the United States have unequal impact on small business as compared to their impact on large business.

With respect to other limitations prescribed by the Landrum-Griffin Act under such projects as picketing, secondary boycotts and hot cargo—all of these will affect the small unionized employer much more adversely than the large corporation. The small unionized employer is generally without adequate labor counsel or industrial relations personnel and cannot resist the union.

The weakness of small business under the labor laws of the United States is further highlighted by those provisions of the Landrum-Griffin Act of 1959 which permit secondary boycotts in the garment industry and in the building trades. These special exemptions (Section 168E) bar a Northern garment manufacturer from giving a subcontract to a nonunion shop even if he is attempting to meet the competition of a Southern mill. Whereas unions have no right to insist on

restrictive clauses in the contracts of large employers in the durable industries, unions in the garment industry have the right to these special exemptions. Furthermore, in the building trades, small building contractors are now involved in prehire agreements which in effect take away from the small contractors the right of the unrestricted "union" shop enjoyed by large corporations in the durable industries. These special exemptions from the Taft-Hartley restrictions of the Landrum-Griffin Act may possibly be unconstitutional. The net impact upon the small employer, however, is that where he might have expected "statesmanship" over the years, he is now in danger of finding himself and the union leader accused of "sweet-heart" or collusive relationships.

### **SMALL BUSINESS FINANCING**

Another major problem of small business in the United States has been its inability to provide adequate equity capital to permit expansion and increased capital investment in buildings and machinery. The fact that many small business firms should receive a gold star for courage, in providing so much employment in the socially disorganized communities of the United States, does not qualify these firms for a long-term loan at the bank. In fact, they are even barred from short-term loans at banks when collateral such as first mortgages is not available.

The federal government and many state governments have become increasingly aware of the problem of financing small business. Often these firms find themselves in "hock" with factors who own most of their "work in process" and who have to approve the credit of their customers. Often the machinery is covered by chattel mortgages. Is it any wonder that a small businessman often has a problem in developing a long-range plan for expansion, business improvement and even survival? Many of these companies take the plunge into business and evidence pioneer-like courage even when terribly underfinanced.

About ten years ago in New England, state development corporations were founded to

provide long-term loans at nominal interest rates to worthy small business requiring equity capital. Many commercial banks which were unable to lend money directly to these firms because of national banking constraints, were able to become members of these state development corporations and provide funds to the development corporation which in turn lent the money to the small applicant firm.<sup>16</sup> Following the lead of the New England prototype development corporation, the Small Business Administration of the United States, which had been providing loans to small business in a limited fashion for both equity and working capital, enlarged its role.

Several years ago, Congress passed the Small Business Investment Act, under which S.B.A. helps finance small firms through the medium of small business investment companies, or S.B.I.C.'s, as they are commonly called. These are privately owned, but S.B.A.-licensed, companies which supply small firms with long-term financing and equity capital so that they can develop and promote new products, modernize, or expand their operations in other ways. S.B.I.C.'s also provide management assistance to firms they help finance. The S.B.A. regulates operations of the S.B.I.C.'s and in some cases makes loans to them.

The S.B.A. has licensed more than 700 S.B.I.C.'s. A list of the companies is available from S.B.A. field offices. An S.B.I.C. may begin operations with a minimum of \$300 thousand of paid-in capital and surplus, of which half may be borrowed from S.B.A. in exchange for the S.B.I.C.'s subordinated debentures. If a company starts with more than the minimum, or subsequently increases its capitalization, S.B.A. may lend it a matching amount up to \$700 thousand. An S.B.I.C. also may borrow operating funds from S.B.A. The agency may lend the company half as much as its paid-in capital and surplus, up to a maximum of \$4 million. The S.B.I.C.

also may borrow from private sources, the limit on such borrowing being four times its capital and surplus. The S.B.A. charges five per cent interest on funds supplied in exchange for subordinated debentures and on operating loans. Congress has enacted liberal tax provisions to encourage S.B.I.C.'s. The Small Business Administration also now makes loans directly to state and local development corporations, which funds become available indirectly for small business applicants.

The Small Business Administration has made a good start in pointing out the need to train small business executives in business methods, administration and finance. This federal agency makes available one-day conferences or clinics for small businessmen. Included are such subjects as working capital, business forecasting, and diversification of markets. The conferences feature outstanding speakers, panel discussions and workshop sessions. Specialists from S.B.A. also counsel small businessmen in the field and provide them with many management publications which are technical aids in finance, management and marketing.

Small business can best be served in many regional areas by joining local trade associations. The purpose of these trade associations is often to assist their members in bargaining with the unions, in management development and in setting up training programs at the public school level for operative employees.

(Continued on page 52)

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**Edward B. Shils**, in addition to his academic duties, is active as a labor consultant, arbitrator and negotiator. He served as consultant to the apparel industry in Philadelphia for 15 years, often negotiating with the International Ladies' Garment Workers' Union on behalf of some 50 knitting mills in the area. In 1958, he directed a study of State Development Credit Corporations for the Small Business Administration. Dr. Shils is the author of numerous articles and several books, the most recent of which is *Automation and Industrial Relations* (New York: Holt, Rinehart and Winston, 1963).

<sup>16</sup> See Edward B. Shils, Report to the Small Business Administration of the United States, "State Development Credit Corporations and Authorities and Problems of Financing Small Business," Committee Report, Committee on Banking and Currency, U.S. Senate, 85th Congress, Second Session, p. 1-39.

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## CURRENT DOCUMENTS

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# President Johnson on Employment

*At his news conference of April 1, 1965, President Lyndon B. Johnson commented on the employment statistics released the same day by the United States Department of Labor. His remarks on the economic situation follow:*

The Department of Labor has today reported the latest gains in our continuing national effort to reduce unemployment in this country. The news is very good. In March, unemployment fell to the lowest rate in 89 months. It fell to 4.7 per cent. Seventy million two hundred thousand Americans were at work—1,700,000 more than a year ago. At the same time the actual number of jobless persons was 3,740,000, the lowest March level in eight years.

I am having a careful analysis made of these 3,740,000 in an attempt to see how we can encourage them and help them to find jobs which they are qualified to fill. There is much good news economically this year. We should be a grateful people.

The news of this gain in employment is the best and the most important of all. It means that more and more Americans are getting opportunities that they want for useful and for productive work.

I believe that the single most important test of the performance of this American economic system is our ability to provide a job for all who need a job.

The record is a tribute to all sectors of our economy: labor, business and our public policies. I think it proves what we can do when we work together, when labor trusts business and both trust government, and government trusts them.

A year ago we eased the burden of our taxes on our economy. We looked forward confidently to a more vigorous prosperity with more and better jobs. The results have confirmed our confidence.

I believe that by trusting the working of our free enterprise system, by making wise use of our federal governmental policies, we in America can continue to sustain our prosperity and provide job opportunities for all persons willing and able to work.

Today we are entering the fiftieth consecutive month of economic expansion and prosperity. This is the longest uninterrupted record in American history.

I have today called upon the Secretary of Labor, Mr. Willard Wirtz; the Secretary of Commerce, Mr. Jack Connor, as well as leaders of both labor and business, to continue the cooperative efforts which are proving so productive and so successful in supporting America's economic strength.

Good as it is, 4.7 per cent unemployment is too high. That figure means that the number of unemployed in our economy is equal to or greater than the individual population of at least two-thirds of our states—states like Connecticut, or Kansas, or Tennessee, or the State of Washington. And that many is too many.

With so many Americans doing so well these days, it is more important than ever that we shall not forget, nor neglect, those who are not sharing in the production or the enjoyment of American abundance.

This outstanding record is convincing proof for my own long-held and often repeated belief that our potential in this country is unlimited if all segments will concentrate on cooperation instead of contention, on helping each other instead of harassing one another.

*(Continued on page 53)*

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## BOOK REVIEWS

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# Readings on Labor-Management

BY MARY C. SHEBESTA  
*University of Illinois*

Allen, Donna. *Fringe Benefits: Wages or Social Obligation?* New York: W. F. Humphrey Press, 1964. 273 p.

Fringe benefits in the form of paid vacations are analyzed here from a historical perspective. A distinction is made between wages paid for actual service rendered, non-wages for the purpose of increasing productivity, and non-wages of a social nature. The distinction is significantly important when the issue of fringe benefits is related to the collective bargaining situation and current status of labor-management relations.

Babian, Haig (ed.). *The Impact of Contemporary Scientific and Technological Developments upon the American Economy.* New York: Joint Council on Economic Education, 1958. 156 p.

Over the past three-quarters of a century Gross National Product in the United States increased at an average annual rate of three per cent. This study points out that the factors and forces responsible for this impressive rate of economic progress are: quality and quantity of labor and capital employed in production, new scientific and technological developments and organizational techniques, the proliferation of new knowledge throughout the population, and basic institutional arrangements within which the economy functions.

In the author's opinion, technological and scientific progress has complicated the difficult task of reconciling two seemingly incompatible goals, that of preserving basic ideals of individual economic freedom and that of large-scale organization and collective action for increased productivity and economic advancement. Automation requires flexible minds, a more educated and skilled labor force, and a high degree of occupational adaptability.

Bakke, E. Wight. *Mutual Survival: The Goal of Unions and Management.* New York: Harper and Brothers, 1946.

The author's major concern is the contradictory convictions of labor and management as a source of conflict and prospects for reducing such conflict. The basic issue in labor-management relations is "individual" survival and the first step to workable relations is understanding "why" the other acts as he does. It is suggested that it is possible to supplement techniques required for self-survival with skills required for mutual survival.

Bakke, E. Wight, Clark Kerr, and Charles W. Anrod. *Unions, Management, and the Public* (2nd ed.). New York: Harcourt, Brace and World, Inc., 1960. 650 p.

In addition to pro and con arguments pertaining to the union security issue, this book covers an extremely wide range of labor relation topics such as: democratic rights and responsibilities of unions and management, management power, authority, and prerogatives, historical reactions to unions, dynamics of industrial conflict—past and present, the function of the strike and collective bargaining, multiemployer bargaining, the origin and the function of labor legislation, and the role of government in the field of industrial relations.

Beman, Lemar (ed.). *Compulsory Arbitration and Compulsory Investigation of Industrial Disputes.* New York: H. W. Wilson Co., 1920. 303 p.

Arguments pro and con compulsory arbitration are presented. The affirmative claims that voluntary arbitration, mediation, and conciliation have failed in the past to settle many great strikes which resulted in enormous costs to society. In an effort to prevent the past from repeating itself in the future,



new methods must be found to mitigate industrial warfare; compulsory arbitration is a theoretically sound and practical solution. The negative claims that compulsory arbitration is unwise, un-American, undesirable, and costly. It destroys individual liberty and the right of free contract. Open to political influence, it can be greatly abused.

Bernstein, Irving, Harold Enarson, and R. W. Fleming (eds.). *Emergency Disputes and National Policy*. New York: Harper and Brothers, 1955.

The national emergency dispute issue involves the union's right to strike, the employer's right to run his business without interruptions, and the public's right to goods and services. Present national emergency strike policy is embodied in Title II of the Taft-Hartley Act-1947. In this study, the "National Emergency Dispute" is defined and the legislative history of the emergency provisions of the Taft-Hartley Act is traced. The chief criticism of Title II is its ineffectiveness, and it is the authors' contention that the problem of national emergency has been inflated and that major disputes require executive rather than congressional action.

Bernstein, M. H. *Regulating Business by Independent Commission*. Princeton: Princeton University Press, 1955.

This study offers directives for developing an affirmative plan for increasing federal regulation of labor-management relations.

Bradley, Philip D. (ed.). *The Public Stake in Union Power*. Charlottesville: University of Virginia Press, 1959. 382 p.

Labor relations and problems with a political and public impact are not unique to contemporary society. The societal consequences of monopolistic union power and corrupt unionism are depicted and explored within the context of this book. Some subjects which receive attention are: labor union action as related to wage policy determination, inflation, and profits; market competition and regulating unions; non-wage aspects of collective bargaining; and individual freedom under collectivized labor arrangements.

Braun, Kurt. *Labor Disputes and their Settlement*. Baltimore: Johns Hopkins Press, 1955. 343 p.

Since employees and employers comprise a very large proportion of the population of

the United States it is imperative that labor and management find peaceful means for settling industrial disputes. Based on this contention, the author examines methods in current use for accommodating labor-management differences and offers suggestions as to the types of procedural machinery with the greatest potential for circumventing industrial warfare. Three broad methods for settling disputes are covered: mediation and conciliation systems, arbitration systems, and the use of labor courts. Some attention is given to the history and role of the National Labor Relations Board in governing and supervising labor-management relations.

Buckingham, Walter. *Automation: Its Impact on Business and People*. New York: Harper and Brothers, 1961. 196 p.

The author explores and analyzes the most important economic and social consequences of the technology of automation. A workable definition of automation is derived from an examination of its fundamental principles. The history of automation is traced back to its origin, and the extent of automation and its characteristics, motives and limits are examined. The context of the book entails a thorough investigation of the impact of automation on industrial organization and structure, the displacement of workers, unemployment, and the relationship between automation and economic growth. The book concludes that rational planning for balanced economic and social growth will be required in order to meet the challenges imposed by automation.

Chamber of Commerce of the United States. *The Case for Voluntary Unionism*. Washington, D.C.: U.S. Chamber of Commerce, 1955. 18 p.

The advantages of voluntary unionism are emphasized.

Chamberlain, Neil W. *The Union Challenge to Management Control*. New York: Harper and Brothers, 1948. 338 p.

This study offers a review of the theory and practice of the management function. It also covers the purposes and determinates of union penetration into the area of management decision making. Chapter 6, which discusses whether union's role in management should be and can be limited, is particularly relevant. The author also explores the reasons why management seeks to limit sharing of authority, the role of law in defining the scope of issues subject to collective bargain-

ing, and a historical perspective of union interests.

Chamberlain, Neil W. *Social Responsibility and Strikes*. New York: Harper and Brothers, 1953. 293 p.

Greater advancement inevitably denotes greater responsibility and whereas trade unions can grow "with" society, they can not do so at its expense. As the author sees it, the meaning of the term social responsibility is illusive and intrinsic, but in a broad sense it refers to that which is done for the good and in the best interest of society. When a strike operates to the contrary, public opinion intervenes and imposes sanctions on the parties involved. Thus, it is to the advantage of both labor and management to operate within the boundaries of public approval and tolerance.

Cochran, Bert (ed.). *American Labor in Mid-passage*. New York: Monthly Review Press, 1959. 196 p.

In the search for answers to a number of provocative questions, the history of the ebb and flow of unionism is reviewed. The great periods of trade union growth occurred under disruptive and abnormal conditions of depression and war.

The author predicts that the equilibrium of the 1950's will collapse under the pressure of crystallizing internal and external tensions. The great peril of automation stems from a lack of adequate machinery to cope with rapid technological change. The economic problems which automation creates are of such magnitude that existing adjustment mechanisms no longer operate effectively.

Cole, David L. *The Quest for Industrial Peace*. New York: McGraw-Hill Book Co., Inc., 1963. 164 p.

The author discusses the incompatible demands imposed on collective bargaining by society; the importance of collective bargaining; problems of emergency strikes; the role of government in labor disputes; the nature of industrial conflict; and the function and control of the strike. He also reviews national labor policy. The President's Labor-Management Advisory Committee suggests that government's main function in labor relations should be that of mediation and "assisting" parties to come to agreement.

Colm, Gerhard and Theodore Geiger. *The Economy of the American People: Progress,*

*Problems, Prospects*. Washington, D.C.: National Planning Assn., 1958. 168 p.

As seen by these authors, the economy of the present differs markedly from the economic system of nineteenth century capitalism. Some of the most striking characteristics of our new economy are: large-scale production, relative economic stability, high per capita production, income, and consumption levels, and rapid technological change. An economic system must be evaluated in terms of its capacity and success in achieving social goals and satisfying individual needs as well as attaining economic objectives per se.

Committee on Economic Development. *The Public Interest in National Labor Policy*. New York, 1961. 159 p.

This is a research study to evaluate policies in terms of effects upon the public interest. It involves an evaluation of free collective bargaining devoid of government intervention and a description of current labor problems and methods employed to reach solutions.

"Compulsory Arbitration of Labor Disputes: Arguments For and Against," *University of Oklahoma Bulletin, New Series No. 137*, Norman, Oklahoma, 1917. 110 p.

This bulletin is especially designed for debates; the affirmative and negative materials presented are interwoven to force each debater to become familiar with and aware of potential opponent counterarguments.

CIO. *Drive Against Labor*. Publication # 138, January, 1947.

In answer to arguments in favor of legislative prohibition of industry-wide bargaining, the C.I.O. claims that such action would forbid the existence of national unions. Breaking up nationals into separate local organizations would involve a destruction of the economic pressure which makes possible the uniform settlement of disputes; separate negotiations give rise to greater conflict and more unresolved issues.

CIO. *The Case Against "Right-to-Work" Laws*. Washington, D.C.: Congress of Industrial Organization, 1955.

This study discusses the effects of union security; C.I.O. argues that the right-to-work is to be viewed along with needs of workers, democratic principles, collective bargaining, and so forth.

CIO. *What's Behind the Drive for Right-to-Work Laws?* Washington, D.C.: Congress of Industrial Organization Department of Education and Research, 1955. 32 p.

According to the C.I.O., state right-to-work laws are "low wage" schemes because there is no justification for the contention that states having such legislation incur economic advantages.

Drucker, Peter F. *Concept of the Corporation.* New York: John Day Co., 1946. 297 p.

In contrast to many writers who deal with the business enterprise as an economic institution, the author approaches the corporation with a sociological and political perspective. Using General Motors as a case study, the achievements, deficiencies, and dilemmas of the modern corporation are analyzed.

Drucker, Peter F. *The New Society.* New York: Harper and Brothers, 1950. 356 p.

Problems of industrial order as related to labor-management relations, economic conflict, the role of unions, the management function, and the plant community are the author's major concern. The government and business are complementary institutions; each is dependent upon the other for its survival. Union survival is dependent upon the right to strike; thus the use of the strike cannot be outlawed because unions serve a useful function in society. The public, however, will not tolerate strikes which endanger the national welfare. Hence, some means must be found to preserve the right to strike and the public right to vital goods and services.

Dubin, Robert. *Working Union-Management Relations.* New York: Prentice-Hall Inc., 1958. 291 p.

A sociological analysis of industrial relations in the larger context of society, the book is divided into four parts, each dealing with a major aspect of industrial relations; the business of management, the role and goals of labor unions, dynamics of collective bargaining and industrial disputes, and labor-management relations as related to society.

Dunlop, John (ed.). *Automation and Technological Change.* Englewood, New Jersey: Prentice-Hall, Inc., 1962. 184 p.

This is a combination of articles on selected topics related to both economic and social aspects of automation and technological

change. Economic growth and strength demand a high rate of technological change; society demands that the concomitant benefits and costs be shared. The challenge of the future lies in our ability accurately to gauge the speed and direction of technological change and then to act in such a manner as to minimize potential violent disruptions and dislocations.

Fenn, Dan H. (ed.). *Management's Mission in a New Society.* New York: McGraw-Hill Book Co., Inc., 1959. 345 p.

Here, the role of big and small business in the economy and the relationship of business to society is viewed historically and in a contemporary context. Three major economic problems confronting business men today are: unemployment, inflation, and burdensome taxes. "New Capitalism" is characterized by bigness and teamwork. The duty of government in New Capitalism is to provide business with a favorable climate within which to operate, to establish policies which will encourage and stimulate business initiative, to preserve and foster the right and opportunity to work, and to treat all business equally.

Fitzpatrick, Bernard H. *Understanding Labor.* New York: McGraw-Hill Book Co., 1945. 179 p.

This is an analysis of the conflicting forces in the field of labor relations. The section on industry-wide bargaining is especially relevant. The author concludes that industry-wide bargaining is impossible unless unions become monopolistic; as such they would be subject to stringent government regulation.

Ginzberg, Eli and Ivar E. Berg. *Democratic Values and Rights of Management.* New York: Columbia University Press, 1963. 217 p.

The authors discuss the impact of social values on organization action by analyzing arbitration decisions. The book assesses the role of arbitration in settling labor-management differences; and includes the issues which give rise to industrial conflict. The real struggle in recent times has been that of adjusting the rights and duties of both management and labor to facilitate accretion of equities to workers without adverse effects on business efficiency.

(Continued on page 53)

## THE U.S. ECONOMY

(Continued from page 8)

national wage levels, but total costs per unit of production and by a variety of noncost factors, including quality, credit terms, delivery dates, exchange rates, taxes, distribution methods and sales promotion efforts.

In comparing labor costs, the important standard is not wage rates but unit labor costs, which take into account not only wages but also fringe benefits, volume of production, the number of workers required to put it out and the amount of time it takes them. Fringe benefits represent a larger share of the total cost of labor in foreign countries than they do in the United States. In Western Europe they sometimes run more than 40 per cent of total labor cost. U.S. labor is also more productive per man hour in most cases than foreign labor.

But even when an American manufacturer's unit labor costs are higher, he is not necessarily at a cost disadvantage. Capital, power and raw materials are usually more expensive abroad than they are here; and often by margins large enough to offset any wage gap. In the case of goods entering the U.S. market, import charges alone—cost of freight, insurance and export packing, as well as duties—sometimes are enough to make up the differential.<sup>14</sup>

Clearly, the impact and the potential of the American economy at home and abroad are enormous. Two social forces in American society—labor and management—have an unequalled opportunity to contribute more fully to the well-being of the nation. Besides fulfilling the normal function of (a) developing management skills and (b) insisting on satisfactory wage levels on the part of unions, these forces must face up to the challenge so well expressed in President Johnson's manpower report to Congress in 1965. Our successes will be our failures unless we develop a manpower policy which seeks:

To open the way to employment for under-educated and poverty stricken;

To provide our young people with opportunities for education, training and constructive work experience needed for satisfying adult work life;

<sup>14</sup> *The United States and World Trade*, Staff Report to U. S. Senate Committee on Foreign Trade, 1960, p. 114.

<sup>15</sup> *Manpower Report of the President*, United States Department of Labor, 1965, pp. IX-X.

To ease the sting of change for displaced workers and disrupted communities;

To develop and fill jobs especially in the service occupations;

To satisfy unmet needs in business, at home, and in the community.<sup>15</sup>

Unless our economic growth rate is maintained or even accelerated by both private and public policies, and draws into active economic and social life all the citizens of this nation, our giant-size material society will have an Achilles' heel of poverty with disturbing social and political implications.

## ROLE OF MANAGEMENT

(Continued from page 16)

part of the American educational scene and has been a major influence in the development of the class of people who may now be considered professional managers. As the academic basis for management education has broadened, the number and kinds of techniques available for a "professional" manager's use have expanded correspondingly, and both his prestige and the extent of his responsibilities have also grown.

## MANAGEMENT AND COLLECTIVE BARGAINING

The continuing professionalization of management has had its repercussions in several areas, not least of which is collective bargaining. Management is not only an organizer of resources both natural and human. In addition, management is the decision-maker standing at the crossroads of conflict between many competing interests in a free society—labor, government, stockholders, purchasers and suppliers, consumers and taxpayers. Those prerogatives we call management right are the tools essential to management if it is to carry out its unique responsibility as organizer and decision-maker. Its primary responsibility is to preserve the business as a going concern because only then can it carry out its subsidiary responsibilities to all of the many groups which are dependent on the organization for their economic well-being and, in many cases, survival.

Thus we see that the need for a group of people trained and skilled to accept and handle managerial responsibilities is being filled by the development of the professional manager. Conversely, the professional manager, if the business and the society are to benefit by his training and skill, must have the opportunity to utilize them.

Obviously, the nature and extent of the rights which management exercises are not immutable. Indeed, the limits on the rights of management are constantly in flux. Decisions are made today by government which a generation ago would have been considered highly improper interference with the rights of management. Labor unions restrict management's freedom to determine wages, hours, and a multitude of things collectively called "conditions of work." Business organizations are told a great deal more about whom they can and cannot employ (children, for example), at what wages and under what conditions they may employ them, how to market and label their products, in what areas they may and may not expand, how they may dispose of their waste products, how they may and may not advertise<sup>32</sup>—a great deal more than many businessmen ever thought they would abide by.

Clearly, those rights which management once considered inalienable by virtue of its position as representative of the owners of the business have been and are subject to continuing change. Management is permitted to exercise them only so long as other concerned groups in the society feel that management is acting in a reasonable and justifiable manner to the best interests of the society and not in an arbitrary fashion.

The arbitrary exercise of managerial authority—its exercise for the benefit of the management group alone or to cater to its emotional preferences and prejudices rather than for the benefit of the entire enterprise,

its exercise without proper respect for public opinion—is frequently the basic reason behind efforts on the part of segments of the society other than management to restrict management prerogatives. For example, current legislation forbidding racial, religious and other discrimination in employment is clearly a result of such arbitrary management.

### THE PROPER UNION ROLE

Although American unions do join in protesting the arbitrary use of management's authority, in general, unions do not seek to participate in the long-range planning or the market or product or finance decisions of the companies with which they bargain.<sup>33</sup> In part, this is because the unions do not want and cannot properly accept responsibility for the mistakes in these areas which inevitably will be made, since they are the results of human judgment. The United Auto Workers obviously would not want to share the blame for the failure of several automobile companies in the last generation.

Although we may recognize that unions have a legitimate role to play in attempting to secure protective work rules and other restraints on management for the benefit of their members, we must at the same time also recognize that the ultimate responsibility for the success of the enterprise must, in the final analysis, continue to rest in the hands of management.

Efforts to protect jobs, to prevent technological displacement, to make certain that promotions, overtime and other matters are handled equitably and without prejudice, are properly the concern of a union which is looking out for the interests of its members. The union has a duty to concern itself with safety, with excessive work loads or excessive work speeds, with securing training for its members so that they may become equipped for new jobs as their old jobs become obsolete.

From the union's viewpoint, restrictions on management in areas such as these are merely protection for workers. To management, these restrictions must be considered handicaps or restraints on its obligation to direct the enterprise in the most efficient fashion.

<sup>32</sup> For example, *FTC v. Colgate-Palmolive Co.*, 33 U.S. L. Week 4311 decided by the U.S. Supreme Court on April 5, 1965, holding that an advertiser may not show a false demonstration to prove a claim about a product, even if the claim is true.

<sup>33</sup> Margaret K. Chandler, *Management Rights and Union Interests* (New York: McGraw-Hill, 1964).



Obviously, there is a conflict here which goes beyond a mere difference in viewpoint. The parties are seeking different objectives: the union seeks protection and security; management seeks efficiency and profit.

The continuing adjustment between these two conflicting sets of interests takes different forms in different industries and at different times. In some industries, unions are relatively less powerful, and their ability to restrict management's freedom is minimal. In others, unions have succeeded in erecting a network of restrictions which almost strangles the industry. When management's freedoms are too severely restricted, we find sick companies and sick industries. Productivity declines, the company's customers turn to other suppliers, the company's ability to recruit capable executives and employees declines, and it starts on a vicious spiral downward. Thus we see companies or industries fail.

The traditional role of management, it must be remembered, is new, because modern management has only a short history. However, in the context of the modern American economy, its role is basically to bring to the business organization certain skills and talents in the field of organizing resources, leading and motivating people, and resolving conflicts among competing groups.

There is no escape from the need for management, and the enterprise will prosper best when the skills of management can be freely utilized within the limits of the rules established by the society.

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## UNIONS AND THEIR MEMBERS

*(Continued from page 28)*

A.F.L.-C.I.O. might be given vastly-increased financial support by its affiliates to enable it to act effectively in the years ahead. So far as the affiliates themselves are concerned, however, there is small ground for assuming that they can or will, on an individual basis, adopt a new focus.

The American trade union has been nothing, if not consistent. For better or worse, it has occupied itself from its inception with

the economic interests of its members; this was the reason for its establishment and for its continued existence. To serve these interests, it has sought to carve out for itself a trade or industrial jurisdiction within which it would have exclusive control of the labor supply. The preservation and protection of its job territory often involved it in controversies with other unions as well as with unorganized groups. Not infrequently, it adopted policies which raised fundamental issues of public interest. It viewed itself as a service organization for *its* members, not for labor in general and certainly not for the whole community. It allied itself with other unions when this seemed advisable in the interest of its members. It favored or opposed government action depending upon the effects on its membership. It is geared to function as business unions have always functioned.

Presumably, this is what the members intended and what they continue to desire. But the union's strengths are also its weaknesses, and it may be that in an automated society the typical business union will have no function. At the same time, however, we should recognize that we have not arrived at the stage at which the traditional union business of collective bargaining has become obsolete. To the old problems have been added many new ones, some of which may not be susceptible to treatment by conventional two-sided collective bargaining. So far, there is really no sound factual basis for the assumption that the trade union, as we have known it, must undergo radical surgery to stay alive.

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## SMALL BUSINESS

*(Continued from page 44)*

Often small firms which are unable to afford labor relations personnel, attorneys or personnel experts can obtain these through membership in a local trade association. In many urban areas, one finds clothing, dress, knit goods, general building contractors, dry cleaners and many other groups of small employers involved in trade association activity.

In this way, the small employer can make up somewhat for his staff deficiencies.

## CONCLUSION

In the foregoing pages, I have attempted to analyze the economic balance in the United States as between large-scale business and small business. Each complements the other. Without one or the other, our economy would be disastrously and adversely affected. Small business employs a great many marginal workers in highly urbanized areas because of the "labor intensity" factor, in which small business requires more man-hours of direct labor to produce a given value of product as compared to large business, where heavy capital equipment predominates.

Consideration should be given further by our federal, state and local authorities to the needs of small business with respect to relief from unjust taxation, excessive regulations, reports and red tape. Assistance in financing business is important. Guidance is necessary to eliminate the gray areas which place small business in a dilemma between federal and state regulations in such fields as labor and wage and hours.

Thought also should be given to local agencies providing all possible help to small business in its efforts to relocate in better plants at relatively low costs in order to permit these firms to compete with foreign nations and with nonunion areas. If this is done, such industries as the apparel industry in Philadelphia will continue to provide 20 per cent or better of total manufacturing employment and small employers will not run away from the older cities, where their beneficial employment effect is so desirable to the entire economy.

It is better for the city government indirectly to subsidize the updated physical and plant needs of small business so that it can provide private payrolls for marginal workers. The alternative is for business to pay increased taxes to maintain the socially disorganized on relief, public assistance and unemployment compensation—or to pay increasingly large tax bills for courts, prisons, parole officers and police.

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## PRESIDENT JOHNSON'S REMARKS

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(Continued from page 45)

And it is my wish and my hope that our leaders of labor and of business will continue working together as they have done increasingly over the last 50 months. Let us put the public interest and the national interest and America's interest always first by seeking those areas of agreement which unite us instead of searching for those things which divide us. If we do that, the result will be a strong and a secure and a successful America for all our people.

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## BOOK REVIEWS

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(Continued from page 49)

Greenwood, William, (ed.). *Issues in Business and Society*. Boston: Houghton Mifflin Co., 1964. 554 p.

This book is especially designed to acquaint readers with, and enhance understanding of the social, political, and economic environment in which contemporary business operates. The articles in this book deal with the relationship of business to the individual, to the public and, more specifically, to labor.

Hardin, Einar, William B. Eddy, and Steven E. Deutsch. *Economic and Social Implications of Automation*. Michigan: Labor and Industrial Relations Center, Michigan State University Press, 1961. 78 p.

This is an annotated bibliography in eleven sections each addressed to a different aspect of automation.

Harris, Seymour (ed.). *American Economic History*. New York: McGraw-Hill Book Co., Inc., 1961. 560 p.

This is a comprehensive analysis and description of the multi-factors contributing to the industrialization and economic progress of the United States. Trade unionism is viewed in the past and the present. The Labor Management Reporting and Disclosure Act of 1959 marks a new era of unionism in the United States.

(Part II of this reading list will appear in our August, 1965, issue.)

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# THE MONTH IN REVIEW

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*A CURRENT HISTORY Chronology covering the most important events of May, 1965, to provide a day-by-day summary of world affairs.*

## INTERNATIONAL

### **African-Asian People's Solidarity Conference**

May 16—Some 300 delegates from 70 countries end a conference in Ghana. They announce that Latin American nations will be invited to the next meeting.

### **Arab League**

May 30—A 5-day Arab heads-of-state meeting in Cairo ends. The meeting, discussing a united Arab front against Israel, was boycotted by Tunisia.

### **Berlin**

May 15—The Moscow radio discloses that the Soviet Union has sent a note to the U.S. warning against further meetings of the West German parliament in Berlin.

May 27—Britain's Queen Elizabeth and Prince Philip visit West Berlin. The Queen promises Britain's "full support . . . in the great tasks that lie ahead."

May 31—West Berliners visit relatives in East Berlin during a Whitsun holiday visiting period.

### **European Economic Community (Common Market)**

May 10—The E.E.C. parliament adopts a resolution calling for expanded trade with Communist nations, particularly with East European countries.

### **European Free Trade Association (E.F.T.A.)**

May 24—At a meeting of the prime ministers of the E.F.T.A. nations, the prime ministers suggest that the E.E.C. and the E.F.T.A. hold a ministerial meeting to stem "deepening division" between the blocs.

### **North Atlantic Treaty Organization (NATO)**

May 12—The NATO foreign ministers end a 2-day meeting. A communiqué is issued endorsing a new call for German reunification. The Council also notes that the Turkish and Greek foreign ministers discussed "amicably" the Cyprus situation.

May 30—U.S. Secretary of Defense Robert McNamara arrives in Paris for a NATO defense ministers' meeting. It is reported that French President Charles de Gaulle has refused to participate in NATO military maneuvers in 1966.

May 31—McNamara proposes that NATO set up a committee of 4 or 5 member-nations to assist in planning nuclear strategy.

### **Organization of American States (O.A.S.)**

May 20—A ministerial meeting of the O.A.S. votes to send a special representative, Secretary-General José Mora, to the Dominican Republic to negotiate a peace settlement. A 5-man peace committee resigned today partly because of U.N. "interference" in settling the Dominican crisis. (See also *Dominican Republic*.)

### **Southeast Asia Treaty Organization (SEATO)**

May 3—The SEATO Council opens its annual meeting.

May 5—At the close of its meeting, the SEATO Council issues a communiqué exploring Communist aggression against the Republic of Vietnam. The French delegate declares that his government did not participate in drafting the communiqué and does not feel "committed by it."

May 28—France withdraws its délégalation to the military staff of SEATO.

## **United Nations**

May 1—The Soviet Union requests that an “urgent meeting” of the Security Council be called to consider U.S. intervention in the Dominican Republic last month.

May 3—During Security Council debate on the Dominican crisis, Adlai Stevenson, U.S. representative at the U.N., declares that the U.S. intervened in the Dominican Republic to prevent “the establishment of another Communist government in the Western Hemisphere.” He urges the U.N. to permit the O.A.S. “to deal with this regional problem.”

May 6—The Security Council adopts a resolution urging Great Britain to try to prevent Rhodesia from unilaterally declaring its independence if white voters endorse Prime Minister Ian D. Smith’s white supremacist government in elections tomorrow.

May 21—The Security Council rejects a Soviet resolution condemning U.S. intervention in the Dominican Republic.

May 22—A statement by U Thant is released in which the Secretary-General warns that the U.N. position has deteriorated during 1965 because it “has been ignored or avoided in the settlement of some recent disputes. . . .”

May 27—U Thant warns that if the O.A.S. is competent to act in the Dominican crisis, “the same principle should be applicable to other regional organizations, too” (i.e., the Organization of African Unity could act in Africa and the Arab League in the Middle East).

## **ARGENTINA**

May 1—President Arturo U. Illia opens a new session of Congress. He warns the 52 Peronist deputies to work within the framework of a democratic opposition.

## **AUSTRIA**

May 14—The British, French, Soviet and U.S. foreign ministers gather in Vienna to

attend ceremonies tomorrow marking the 10th anniversary of the Austrian State Treaty.

May 23—Vienna’s Socialist Mayor, Franz Jonas, is elected president of Austria; he defeats Conservative party candidate Alfons Gorbach, a former chancellor.

## **BELGIUM**

May 23—National elections for parliament are held.

May 24—The Christian Socialist Premier, Théo Lefèvre, resigns. Results of yesterday’s election showed that the Christian Socialist strength in the Chamber of Deputies declined from 96 to 77 seats. The Socialist party won 64 seats, a loss of 20. Extremist groups gained 39 seats.

## **BOLIVIA**

May 17—Lieutenant General René Barrientos Ortuña announces that the ruling military junta, which he heads, has declared a state of siege. Rioting has broken out in La Paz following a protest by tin miners against the exile of former Vice-President Juan Léchín Oquendo. Miners in Mina Violoco have seized mining company technical and administrative employees as hostages.

May 18—The Bolivian Labor Federation calls a general strike. The tin mines and other sectors of the economy are shut down.

May 21—Using tear gas and rifle butts, police disperse some 2,000 workers. Army troops set up fortifications in La Paz.

May 23—The military junta, after a meeting with the cabinet, orders military troops to occupy the tin mines and decrees that all miners have been drafted into the armed services.

In a radio broadcast, the miners ask for a 48-hour truce.

May 24—Government troops fight striking tin miners. Some 48 persons are reported to have been killed. In the workers’ district of La Paz, fighting erupts in support of the miners.

May 25—The military junta and the miners

and workers agree on a truce under which the junta's forces will withdraw from the tin mine areas and workers' districts in La Paz. The miners are to return to work tomorrow.

May 26—It is reported that General Alfredo Ovando Candia has been sworn in as co-president of Bolivia; he shares equal power with President René Barrientos Ortuño.

## **BRITISH COMMONWEALTH OF NATIONS, THE**

### **Canada**

May 1—Dynamite is exploded at the U.S. consulate in Montreal, damaging the building.

May 8—The Department of External Affairs announces that 2 Soviet embassy officials have been declared persona non grata; they are accused of engaging in espionage.

### **Cyprus**

May 8—Ending 3 days of talks in Athens, Greek Premier George Papandreou and Cypriote President Makarios issue a communiqué affirming their adherence to a policy of "self-determination" for Cyprus.

May 10—A Turkish spokesman discloses that the Greek and Turkish foreign ministers have agreed that a peaceful solution must be found for Cyprus.

May 22—In a joint statement issued just before visiting Soviet Foreign Minister Andrei Gromyko departs, Turkey and the Soviet Union agree that a Cyprus peace settlement must protect the Turkish and Greek Cypriote communities.

### **Great Britain**

May 6—Voting 310 to 306, the House of Commons approves a White Paper that will become the basis of legislation nationalizing 90 per cent of the steel industry.

May 12—The International Monetary Fund approves a \$1.4 billion package loan for Britain.

May 14—It is reported that in nationwide municipal elections yesterday, the voters supported the Conservative party. Con-

servative councilors gained 562 seats and lost 10; 419 seats were lost by councilors running on the Labor ticket and 45 seats were gained.

Queen Elizabeth dedicates 3 acres at Runnymede to the American people as a tribute to President John F. Kennedy. The Magna Carta was signed at Runnymede in 1215.

### **India**

May 8—In New Delhi, the Indian government detains Sheik Mohammed Abdullah (the Lion of Kashmir), leader of the Kashmiri Muslims. Protest rioting erupts in Kashmir.

May 11—Prime Minister Lal Bahadur Shastri tells the parliament that the government will negotiate the dispute with Pakistan over the Rann of Cutch area.

May 12—Prime Minister Shastri arrives in the Soviet Union for a week's visit. He is honored at a Kremlin dinner.

May 18—It is reported that British efforts to negotiate a cease-fire between Pakistani and Indian forces in the Rann of Cutch have reached an impasse.

### **Kenya**

May 16—It is reported that last night 11 trucks carrying weapons from Tanzania to Uganda were stopped by Kenyan forces at Kisii in Kenya.

May 18—President Jomo Kenyatta terms the weapons shipment "an act of criminal folly."

May 25—Ugandan Prime Minister Milton Obote flies to Kenya to ask for the release of the arms shipment.

May 26—President Jomo Kenyatta agrees to release the arms. Obote and Kenyatta issue a joint communiqué affirming their friendship.

### **Malaysia, Federation of**

May 24—Malaysian King Tuanku Syed Putra speaks at the opening of the parliament; he criticizes Indonesian aggression against the Federation.



## Pakistan

(See *British Commonwealth, India.*)

## BRITISH TERRITORIES

### Basutoland

May 11—It is reported that the Basutoland National Party (right-wing group favoring cooperation with the Republic of South Africa) has won 31 of the 60 seats in the National Assembly.

May 13—The first session of the newly elected National Assembly and Senate opens.

### Rhodesia

May 7—The Rhodesian Front, the party of Prime Minister Ian D. Smith, wins all 50 parliamentary seats contested in today's general election. (See also *Intl, U.N.*)

May 21—A new cabinet, with 2 new appointments, is formed by Prime Minister Ian D. Smith.

## BURUNDI

May 10—In the first general elections, Burundi voters go to the polls to elect 33 deputies from among 411 candidates.

## CAMBODIA

May 3—Cambodia's Chief-of-State, Prince Norodom Sihanouk, announces that diplomatic ties with the U.S. are suspended.

## CHILE

May 6—U.S. Ambassador-at-Large W. Averell Harriman confers with Chilean President Eduardo Frei Montalva on U.S. policy in the Dominican Republic.

## CHINA, PEOPLE'S REPUBLIC OF (Communist)

May 14—*Hsinhua* (Chinese Communist press agency) announces that China has exploded a second atom bomb.

May 28—Premier Chou En-lai confers with visiting Indonesian Foreign Minister Subandrio.

May 30—According to *The New York Times*, reports reaching London from Peking dis-

close that Chinese Communist leader Mao Tse-tung has suffered a stroke.

## COLOMBIA

May 21—A state of siege is ordered by the government to stem student rioting, which began 11 days ago.

May 25—Student leaders announce that striking students will resume classes tomorrow.

## DOMINICAN REPUBLIC

May 1—A rebel radio appeals for observance of the truce agreement signed yesterday between the rebel and counterrevolutionary factions; it urges respect for the International Safety Zone established by U.S. marines in Santo Domingo.

At an emergency meeting of representatives of the Organization of American States' foreign ministers, a resolution is adopted creating a 5-man peace committee to try to restore peace in the Dominican Republic. (See also *Intl, O.A.S.*)

May 2—Approximately 5,000 additional U.S. troops to supplement the 4,200-man force already there arrive in the Dominican Republic between late yesterday and early today. President Johnson's personal envoy, John Bartlow Martin, who is assisting U.S. Ambassador W. Tapley Bennett, declares that the rebel coup designed to restore Juan Bosch to the presidency has become "Communist-dominated."

The O.A.S. peace mission begins negotiations.

May 4—*The New York Times* reports that over 16,000 U.S. servicemen are present in the Dominican Republic and surrounding sea lanes.

It is reported that, at an electoral meeting in rebel headquarters last night, attended by 17 out of 27 senators and 41 out of 74 deputies, 49 legislators approve rebel leader Colonel Francisco Caamaño Deñó as provisional president.

Colonel Francisco Caamaño Deñó is sworn in as president. He declares that U.S. troops should be withdrawn shortly

and denounces "dictatorships of left or right."

May 5—U.S. government sources make available a list of "Communist and Castroist" persons who, according to the Administration, have played a major part in the revolt in the Dominican Republic.

The rebel government under Colonel Caamaño and the counterrevolutionary military junta sign a cease-fire pact. Shooting continues.

May 6—Two U.S. marines are killed by rebel fire when they enter the rebel zone, demarcated in yesterday's truce pact.

At a ministerial meeting of the O.A.S., a U.S. resolution appealing for an inter-American peace force to restore order in the Dominican Republic is approved.

May 7—The 3-man counterrevolutionary military junta opposing Caamaño resigns. A new 5-man civilian-military junta is established under General Antonio Imbert Barreras. General Imbert is sworn in by Supreme Court President Julio Cuello.

May 9—The junta announces that it has retired 8 high ranking military officers. General Imbert, junta president, declares that he has enough force to oust the rebels.

May 10—Brigadier General Elias Wessin y Wessin has resigned as commander of the armed forces, according to a U.S. embassy spokesman.

May 11—*The New York Times* reports that the U.S. government is trying to negotiate a government coalition to include the rival groups loyal to Colonel Caamaño or General Imbert. It is reported that General Wessin y Wessin has reversed his decision to resign.

May 12—*The New York Times* reports that while claiming neutrality between the factions, the U.S. has given \$750,000 to General Imbert.

May 13—The 5-man junta's forces attack the rebel radio station with rockets and machine guns. U.S. Ambassador Bennett files a complaint with the O.A.S. peace committee accusing the junta of violating the cease-fire agreement.

May 14—Junta forces again attack the rebel radio station.

At the U.N., the Security Council unanimously votes to send a representative to the Dominican Republic, as requested by Colonel Caamaño's faction, and issues a call for a cease-fire.

May 15—Forces loyal to Colonel Caamaño and those loyal to the junta battle in northeastern Santo Domingo.

U.S. President Lyndon B. Johnson issues a statement voicing hope for a coalition government. He promises economic aid to such a government.

May 16—A 4-man U.S. fact-finding commission arrives in the Dominican Republic. It includes McGeorge Bundy, presidential assistant for national security affairs.

May 17—In a letter made public today, the U.S. Representative to the O.A.S., Ellsworth Bunker, offers to place U.S. troops under an inter-American peace force being established by the O.A.S.

*The New York Times* reports that the U.S. fact-finding mission and Colonel Caamaño have agreed on a peace plan providing that former Minister of Agriculture Antonio Guzman will serve as president until December, 1966, when elections will be held. Guzman is a supporter of ex-President Juan Bosch.

May 19—The 5-man O.A.S. peace committee charges that the U.S. and U.N. missions in the Dominican Republic have impeded its attempts to establish peace there.

General Imbert's forces seize a rebel radio station in Santo Domingo with the help of U.S. troops. Imbert later promises crowds to give them "peace and work." For the first time, U.S. paratroopers battle against rebel forces under Caamaño.

May 20—A 24-hour truce agreement effective tomorrow permits removal of the dead and wounded.

*The New York Times* reports that, while remaining "impartial," the U.S. will not try to obstruct the junta's drive to wipe out Caamaño's forces.

May 21—At an O.A.S. ministerial meeting,

Ellsworth Bunker announces that the U.S. will soon withdraw 1,700 troops from the Dominican Republic. He declares that the U.S. will set up a joint command with Brazil, which will contribute 1,250 men. Some 450 U.S. soldiers have been displaced by troops contributed by Honduras, Nicaragua and Costa Rica.

May 22—General Imbert announces that his troops will not fire unless provoked while peace negotiations with the O.A.S. Secretary-General, José Mora, are under way.

May 26—McGeorge Bundy returns to the U.S. and reports to President Johnson.

600 U.S. marines are replaced by contingents of an inter-American peace-keeping force.

The O.A.S. sends 3-man teams into all sections of the country held by the junta; they will police the cease-fire.

May 29—The rebel factions ask for the removal of O.A.S. Secretary-General José Mora as mediator in the Dominican crisis.

May 30—U.S. Secretary of State Dean Rusk endorses a plebiscite on a constitution for the Dominican Republic.

## **FRANCE**

May 17—Britain and France sign an agreement to cooperate in developing 2 supersonic military planes.

May 19—It is made known that France has converted 60 million in U.S. dollars into gold.

May 26—In a special declaration issued by Minister of Information Alain Peyrefitte following a cabinet meeting, President de Gaulle criticizes U.S. intervention in the Dominican Republic.

## **GERMANY, FEDERAL REPUBLIC OF (West)**

May 13—The U.A.R. breaks off diplomatic ties with West Germany, after West Germany's announcement today that it is establishing diplomatic relations with Israel.

May 18—Britain's Queen Elizabeth II and Prince Philip arrive for a 10-day visit.

## **GREECE**

May 24—Greek Premier George Papandreou cancels a visit to the Soviet Union.

## **INDONESIA**

May 1—President Sukarno rejects a Japanese invitation to meet in Tokyo with Malaysian Prime Minister, Prince Abdul Rahman, to discuss their conflict.

## **ISRAEL**

May 13—In a joint communiqué, dated May 12 and released today, the Israeli and West German governments announce that they have set up full diplomatic relations.

May 17—Rejecting Tunisian President Habib Bourguiba's proposal for an Arab-Israeli settlement, Premier Levi Eshkol declares that any settlement will have to be negotiated with Israel as it exists today; no territorial concessions are to be made.

May 18—Ex-Premier David Ben-Gurion states that he is willing to assume the post of premier again.

May 27—An Israeli Army announcement discloses that 3 reprisal attacks against Jordan were made tonight. Israel charges that raids against Israel have originated in Jordan.

May 31—In an exchange of fire between the Israeli sector of Jerusalem and the Jordanian sector, 2 Israelis are killed.

## **KOREA, REPUBLIC OF (South)**

May 18—General Chung Hee Park, President of Korea, meets with U.S. President Johnson in Washington, D.C.

## **LIBYA**

May 8—Elections for a new parliament are held.

May 10—Demonstrators stage a protest over the elections, charging that the government has illegally declared liberal candidates defeated.

May 12—A general strike is called to protest the election. Final results are not yet available.

## **NORWAY**

May 13—Yugoslav Premier Tito and Nor-

wegian Premier Einar Gerhardsen issue a joint communiqué in support of a strong U.N., after talks in Oslo.

### POLAND

May 1—In a May Day speech, the First Secretary of the Polish Communist (workers) party, Wladyslaw Gomulka, accuses the U.S. of acting as "the policeman of colonialism."

May 30—National parliamentary elections are held; a single list of candidates is presented to the voters.

### SUDAN, THE

May 11—It is reported that the Umma Mahdist party has won 49 of the 112 parliamentary seats for which results have been announced. There are 44 seats for which results have not been announced.

May 16—The Sudan cancels ties with West Germany. It is the 10th Arab nation to retaliate for West Germany's setting up diplomatic relations with Israel.

### SYRIA

May 18—An Israeli citizen, Eliahu Saul Cohn, is hanged in Syria after being convicted of espionage.

### TUNISIA

May 2—President Habib Bourguiba criticizes President Gamal Abdel Nasser for his "will to exercise an exclusive leadership in the Arab world. . . ."

### U.S.S.R., THE

May 7—Soviet Premier Aleksei N. Kosygin speaks at a rally in East Germany commemorating the 20th anniversary of Germany's defeat in World War II.

May 8—At a ceremony in honor of the 20th anniversary of V-E Day, Communist party chief Leonid I. Brezhnev speaks favorably of former Soviet Premier Joseph Stalin's war efforts, in the first public praise of Stalin since deposed Soviet Premier Khrushchev's de-Stalinization program. Soviet Marshal Georgi K. Zhukov is seated among the honored wartime commanders in his first public appearance since his dismissal in 1957 by Khrushchev.

May 9—In a military parade in Red Square, 110-foot Soviet missiles are displayed.

Luna 5, the 5th Soviet moon shot, is launched successfully.

May 11—The Soviet Union expels Norris D. Garnet, a cultural attaché of the U.S. embassy in Moscow and a Negro; he is charged with fomenting anti-Russian hostility among African students.

May 12—Luna 5 strikes the moon's surface. Although an earlier Soviet statement disclosed that "elements of a soft-landing system are being tried out for the first time," *The New York Times* reports that the "soft landing" attempt failed.

May 15—At a Soviet-Indian "friendship rally" at the Kremlin, Kosygin charges the U.S. with imperialism. Visiting Indian Prime Minister Lal Bahadur Shastri urges an end to the bombing of North Vietnam.

May 19—In a communiqué at the close of talks, Shastri and Soviet leaders declare that a Vietnamese solution must be worked out within the framework of the 1954 Geneva accord on Indochina.

May 24—In an official Soviet census reported by *The New York Times*, it is disclosed that 10.8 million persons are members of the C.P.S.U., i.e., one in every 20 citizens.

Cyrus Eaton, U.S. businessman, reports that, in an interview on May 20 with Kosygin, the Premier told him that the Soviet Union and China are settling their differences and will jointly fight the U.S. if it persists in bombing North Vietnam.

## UNITED STATES

### Agriculture

May 4—Secretary of Labor W. Willard Wirtz announces that a program to employ 15,000–25,000 American youths on farms will begin this summer. This will help meet a shortage of farm labor, expected because a law enabling Mexican farm workers to enter the U.S. has expired.

### Economy

May 3—President Lyndon B. Johnson tells 4,200 persons attending a legislative con-

ference sponsored by the Building and Construction Trades Department of the A.F.L.-C.I.O. that corporate profits in the first quarter of 1965 reached \$36 billion at a seasonally adjusted annual rate.

May 14—The Commerce Department reports that the international balance of payments gap declined in the first 3 months of 1965.

## Foreign Policy

May 2—President Johnson announces, in a television address, that he has ordered 6,500 additional troops sent to the Dominican Republic, bringing U.S. forces there to more than 14,000 men. (See also *Dominican Republic*.)

Ambassador-at-Large Averell Harriman arrives in Peru after a visit with Colombian President Guillermo Leon Valencia yesterday. Harriman is gathering support for U.S. action in the Dominican Republic.

May 3—President Johnson declares, in an unscheduled appearance before the conference of the Construction Trades Department of the A.F.L.-C.I.O., that U.S. forces will remain in the Dominican Republic until the Organization of American States can restore stability there. He warns that the U.S. will not permit "the Communists [to] set up any government in the Western Hemisphere."

May 4—President Johnson asks Congress for a \$700 million appropriation in additional funds to finance the war in Vietnam. (See also *U. S. Government*.)

May 6—A report by a presidential commission studying the possibility of expanding trade with the Soviet Union and its East European satellites is released by the White House. The report urges easing of trade restrictions.

May 7—On the eve of the 20th anniversary of VE-Day, President Johnson addresses European television audiences via the Early Bird communications satellite. Johnson warns against a "narrow nationalism," "which would blight the hopes and destroy the dream of European unity and Atlantic partnership."

May 15—*The New York Times* reports that in talks yesterday and today in Vienna with Soviet Foreign Minister Andrei A. Gromyko, U.S. Secretary of State Dean Rusk has offered to suspend temporarily U.S. bombings of North Vietnam.

For the third consecutive day, U.S. air strikes against North Vietnam are suspended.

May 17—President Chung Hee Park of South Korea arrives at the White House on a 2-day state visit to Washington. He meets with President Johnson.

May 28—President Johnson, speaking at a commencement exercise at Baylor University, notes the need for "new international machinery" able to act quickly to meet the threat of Communist subversion. He defends U.S. policy in the Dominican Republic.

## Government

May 6—The Senate completes congressional action on a bill to appropriate an additional \$700 million to be used for the war in Vietnam. The bill goes to the President.

May 9—In an executive order, President Johnson sets forth new regulations classifying a code of ethical conduct for federal employees in the military services and the executive branch. Government officials, such as the heads of federal agencies and presidential appointees, are required to file financial reports.

May 10—The White House announces that Under Secretary of Commerce Franklin D. Roosevelt, Jr., has been named chairman of the Equal Employment Opportunity Commission. The other 4 members of the commission are also named.

May 12—President Johnson requests that Congress approve pay increases for federal employees and members of the armed services. He also asks Congress to authorize himself and future presidents to adjust federal wage scales every 4 years to keep them on a level with that of private industry.

May 13—Robert Glenn Thompson is sen-



tenced to 30 years in prison for spying for the U.S.S.R.

President Johnson announces that he will merge the Weather Bureau, the Coast and Geodetic Survey and the Central Radio Propagation Laboratory of the National Bureau of Standards into one agency, the Environmental Science Services Administration.

May 14—President Johnson names Marshall Green, deputy assistant secretary for Far Eastern Affairs, as ambassador to India; he succeeds retiring Howard P. Jones.

Frances Perkins, the first woman to serve in the Cabinet (during President Franklin D. Roosevelt's administration), dies.

May 15—At a teach-in in Washington, academic scholars debate U.S. policy in Vietnam.

May 17—In a message to Congress, Johnson urges the repeal or reduction of \$3.9 billion in excise taxes. He proposes that \$3.5 billion worth be reduced in 2 stages by January 1, 1966.

May 18—President Johnson submits to Congress recommendations for amending the Fair Labor Standards Act to cover more workers. Included in his recommendations for labor legislation is the repeal of Section 14(b) of the Taft-Hartley Act; Section 14(b) empowers a state to pass laws outlawing union shops. Johnson also recommends improvement of the federal-state unemployment insurance program. (*For the text of this message, see Current History, August, 1965*).

President Johnson announces that 1,676 project grants have been approved to set up 9,508 preschool centers under Project Head Start.

May 19—President Johnson announces that he has appointed Mrs. Patricia Roberts Harris to serve as Ambassador to Luxembourg; she will be the first Negro woman ambassador.

May 20—The Federal Communications Commission grants a one year probationary license renewal to the Lamar Life Broadcasting Company of Jackson, Mississippi.

The company is ordered to end racial discrimination in its programming on radio and television.

May 24—The White House Conference on Natural Beauty opens; Mrs. Lyndon Johnson addresses the 1,000 conferees.

May 25—President Johnson tells the Conference on Natural Beauty that tomorrow he will send legislation to Congress providing for the removal of billboards and junkyards from along the nation's highways.

By a vote of 70-30, the Senate invokes cloture to shut off the 24-day debate on the bill to end discrimination in voting rights and voter registration.

May 27—The Senate completes congressional action on the annual defense appropriation bill; over \$15 billion is appropriated for military equipment.

Johnson signs a bill to extend for 3 years the Arms Control and Disarmament Agency.

May 30—The White House announces that 121 youths have been chosen as Presidential Scholars for 1965.

## Labor

May 3—A report on the steel industry by the Council of Economic Advisers is published today. The Council's report asserts that the steel industry could grant a 3 per cent wage and benefits increase to its employees without raising steel prices.

May 5—*The New York Times* reports that George Meany, the President of the A.F.L.-C.I.O., has decided not to withdraw from the International Labor Organization.

May 14—The 32nd convention of the International Ladies' Garment Workers' Union (I.L.G.W.U.) adopts a guide establishing uniform standards in negotiations on contract provisions, to be used by all union members and affiliates.

May 19—David J. McDonald, President of the United Steelworkers of America, reads a statement declaring that he will not challenge the election of I. W. Abel to succeed him in the presidency. On April 30, 1965,

3 union tellers declared that Abel had won the election for president last February.

May 21—Reelected yesterday, I.L.G.W.U. President David Dubinsky begins his 34th year in office.

## Military

May 1—President Johnson announces that the YF-12A interceptor plane has set a world speed record of over 2,000 miles an hour on a straight course and 1,688 m.p.h. on a closed course.

May 8—*The New York Times* reports that a Defense Department study (now almost completed) of the military draft has found that the draft should be continued.

May 10—Secretary of the Navy Paul H. Nitze appeals to officers and enlisted men whose terms of duty are soon to end to extend their enlistments.

May 18—*The New York Times* reports that on March 9 the U.S. secretly fired a rocket that launched 8 military satellites into orbit.

## Politics

May 13—Representative John V. Lindsay (Rep.-N.Y.) announces that he will run for mayor of New York City against incumbent Mayor Robert Wagner.

May 22—In New York, President Johnson attends the annual dinner dance of the President's Club (composed of 1,000 persons contributing \$1,000 or more to the Democratic National Committee).

## Segregation

May 4—Gary Thomas Rowe, Jr., testifies at the murder trial of Collie LeRoy Wilkins, Jr., accused of murdering Mrs. Viola Gregg Liuzzo in Alabama. Rowe states that Wilkins and 2 other members of the Ku Klux Klan shot Mrs. Liuzzo.

May 5—A federal court of appeals for the fifth circuit dismisses criminal contempt proceedings against former Governor Ross R. Barnett and Governor Paul B. Johnson, Jr., of Mississippi. The 2 men had been charged with defying a court order in September, 1962, to refrain from interfering

with the enrollment of a Negro, James H. Meredith, at the University of Mississippi.

May 7—The jury for the Wilkins murder trial reports that it is deadlocked after 2 days of deliberations. Circuit Judge T. Werth Thagard dismisses the jurors. A mistrial is declared.

May 9—Six southern governors meet in Atlanta at the invitation of Georgia Governor Carl E. Sanders to discuss Title VI of the Civil Rights Act of 1964, outlawing discrimination in programs receiving federal funds. The U.S. Office of Education has ordered all school districts receiving federal funds to begin racial integration by September.

May 10—Nine southern governors, 6 of whom met yesterday, issue a statement declaring that they will appeal to their congressmen to try to slow school integration.

In Houston, Texas, 9,000 Negro high school students boycott classes to protest the slow pace of racial integration.

May 13—In Oxford, Alabama, a Negro church is bombed.

May 18—In Washington, D.C., 8 southern governors meet with the congressional delegations from their home states to discuss the school desegregation guidelines laid down by the Office of Education.

May 23—Jesse H. Cutrer, Jr., mayor of Bogalusa, Louisiana, broadcasts a policy statement: he promises to repeal all city laws requiring segregation. Police jobs will be open to Negroes.

May 25—Negro delegations arrive at the state capitol in Montgomery; they ask Alabama legislators to provide for "fair elections" in which Negroes may be elected to the legislature, and list other grievances.

May 30—Vivian Malone receives a degree from the University of Alabama. She is the first Negro to graduate there.

## Supreme Court

May 3—The Supreme Court rules that the Secretary of State has the authority to refuse passports to U.S. citizens to travel to certain areas such as Cuba.

May 17—The Supreme Court rules against California's claim that the 3-mile offshore limit begins at the far end of the islands off its southern coast and that the water between the islands and southern California is "inland water" owned by the state. The Court rules that California can claim a 3-mile strip off its mainland coast and a 3-mile strip around each island.

May 24—In a unanimous decision, the Supreme Court finds unconstitutional a 1962 federal statute requiring recipients of "Communist political propaganda" to request delivery of such mail on a signed card.

### VIETNAM, REPUBLIC OF (South)

May 3—In a joint communiqué, the U.S. and South Vietnam governments disclose that 3,500 paratroopers and 75 helicopters are scheduled to arrive to defend the "Bien-hoa Vungtau military base complex." This will bring U.S. forces in Vietnam to a total of 37,000 men.

May 7—It is announced that the Armed Forces Council disbanded yesterday. Premier Quat's government now has complete responsibility.

May 9—U.S. navy jet planes attack an air-base at Vinh in North Vietnam.

The Great Unity Force (A Roman Catholic political organization) adopts a resolution urging an invasion of North Vietnam to overthrow the "Communist dictatorship." It also condemns the South Vietnamese Premier, Phan Huy Quat.

May 11—U.S. planes batter Vietcong forces in Phuoclong Province, where Vietcong held the provincial capital of Songbe for 6 hours before retreating.

May 14—It is reported that bombings of North Vietnam have been halted, according to a dispatch from Saigon.

May 16—In an accidental chain of explosions set off by live delayed-action bombs, 40 planes at the Bienhoa air base are damaged; at least 21 Americans and 1 Vietnamese are killed.

May 18—The U.S. resumes air strikes against North Vietnam, ending a 6-day halt. U.S. State Department spokesman Robert J. McCloskey declares that it is "correct" to conclude that the U.S. felt "disappointed" at North Vietnam's failure to make diplomatic overtures during the suspension of U.S. air attacks.

May 22—90 U.S. air force jet planes bomb a base 55 miles from Hanoi in North Vietnam.

May 25—A U.S. military spokesman declares that the U.S. is "99 per cent sure" that 4 U.S. planes off course were responsible for an attack on a South Vietnamese engineer battalion.

Chief of State Phan Khac Suu refuses to sign a decree approving cabinet changes announced by Premier Quat.

May 26—At a news conference, U.S. Secretary of State Dean Rusk warns that the Soviet Union and Communist China should not commit themselves too strongly in North Vietnam while underestimating the seriousness of U.S. determination to defend South Vietnam.

May 27—A U.S. spokesman in Saigon discloses that U.S. warships have fired on Vietcong targets along South Vietnam's coast.

May 31—It is disclosed that 150 South Vietnamese troops were ambushed yesterday; 23 soldiers and 3 U.S. advisers survived. With a Vietcong offensive in its fifth day, Brigadier General Nguyen Chanh Thi requests that a battalion of 1,500 U.S. marines be brought into battle against the Vietcong.

### YEMEN

May 5—The Middle East News Agency reports that at a meeting, tribal leaders supporting the Republican regime in Yemen urged new efforts to conciliate the Royalist faction and end the civil war.

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